



Agenda

Meeting: **Audit and Governance Committee**
Date: **20 July 2023**
Time: **6.30 pm PLEASE NOTE THE START TIME**
Place: **Council Chamber - Civic Centre Folkestone**

To: **All members of the Audit and Governance Committee**

The committee will consider the matters, listed below, at the date, time and place shown above. The meeting will be open to the press and public.

Members of the committee, who wish to have information on any matter arising on the agenda, which is not fully covered in these papers, are requested to give notice, prior to the meeting, to the Chairman or appropriate officer.

This meeting will be webcast live to the council's website at <https://folkestone-hythe.public-i.tv/core/portal/webcasts>.

Please note there will be 37 seats available for members of the public, which will be reserved for those speaking or participating at the meeting. The remaining available seats will be given on a first come, first served basis.

1. **Apologies for Absence**
2. **Declarations of Interest (Pages 5 - 6)**

Members of the committee should declare any interests which fall under the following categories:

- a) disclosable pecuniary interests (DPI);
- b) other significant interests (OSI);
- c) voluntary announcements of other interests.

Queries about the agenda? Need a different format?

Contact Sue Lewis – Tel: 01303 853265/3267
Email: committee@folkestone-hythe.gov.uk or download from our website
www.folkestone-hythe.gov.uk

3. **Minutes (Pages 7 - 14)**

To consider and approve, as a correct record, the minutes of the meeting held on 15 March 2023.

4. **Extension of term of office of Independent Member of the Audit and Governance Committee (Pages 15 - 18)**

In December 2019, Full Council agreed to the recommendations of the Audit and Governance Committee to appoint an Independent member to the Audit and Governance Committee. It had been envisaged the appointment would run until May 2023. However, due to the pandemic, the recruitment exercise was delayed, and an appointment was not made until November 2020. The Committee is therefore asked to recommend to Full Council that Andy Vanburen's term be extended until November 2024. This also assists in maintaining continuity of committee membership where membership has been affected by the electoral cycle.

5. **Quarterly Code of Conduct Complaints update report (Pages 19 - 22)**

This report provides an update to the Committee on Member Code of Conduct complaints received during quarter 4 of 22/23 (1 January to 31 March 2023), and quarter 1 of 23/24 (1 April to 30 June 2023).

6. **Quarterly Internal update Report from the Head of East Kent Audit Partnership (Pages 23 - 40)**

This report includes the summary of the work of the East Kent Audit Partnership (EKAP) since the last Audit and Governance Committee meeting together with details of the performance of the EKAP to the 31st May 2023.

7. **The Internal Audit Annual Report 2022-23 (Pages 41 - 58)**

This report provides a summary of the work undertaken by the East Kent Audit Partnership to support the annual opinion. The report includes the Head of Audit Partnership's opinion on the overall adequacy and effectiveness of the system of internal control in operation and informs the Annual Governance Statement for 2022-23, together with details of the performance of the EKAP against its targets for the year ending 31st March 2023.

8. **Annual Governance Statement 2022/23 (Pages 59 - 88)**

Under the Accounts and Audit (England) Regulations 2015, local authorities are required to produce an Annual Governance Statement. This report describes the process followed and seeks approval for the Annual Governance Statement for the year 2022/23.

9. **2021/22 and 2022/23 Statement of Accounts Update Report (Pages 89 - 92)**

This report provides an update on recent work undertaken, in relation to prepare the Council's Statement of Accounts for 2021/22 and 2022/23.

10. **Delay to commencement of the external audit of the 2022/23 Statement of Accounts (Pages 93 - 98)**

The Council's external auditor; Grant Thornton has advised the Council that there will be a delay in the commencement of the 2022/23 audit of the Council's 2022/23 Statement of Accounts.

11. **Grant Thornton publication - "About Time?" (Pages 99 - 132)**

The Council's external auditor; Grant Thornton have issued a publication entitled "About time. They have asked for this publication to be shared with Members of the Audit & Governance Committee.

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Declarations of Interest

Disclosable Pecuniary Interest (DPI)

Where a Member has a new or registered DPI in a matter under consideration they must disclose that they have an interest and, unless the Monitoring Officer has agreed in advance that the DPI is a 'Sensitive Interest', explain the nature of that interest at the meeting. The Member must withdraw from the meeting at the commencement of the consideration of any matter in which they have declared a DPI and must not participate in any discussion of, or vote taken on, the matter unless they have been granted a dispensation permitting them to do so. If during the consideration of any item a Member becomes aware that they have a DPI in the matter they should declare the interest immediately and, subject to any dispensations, withdraw from the meeting.

Other Significant Interest (OSI)

Where a Member is declaring an OSI they must also disclose the interest and explain the nature of the interest at the meeting. The Member must withdraw from the meeting at the commencement of the consideration of any matter in which they have declared a OSI and must not participate in any discussion of, or vote taken on, the matter unless they have been granted a dispensation to do so or the meeting is one at which members of the public are permitted to speak for the purpose of making representations, answering questions or giving evidence relating to the matter. In the latter case, the Member may only participate on the same basis as a member of the public and cannot participate in any discussion of, or vote taken on, the matter and must withdraw from the meeting in accordance with the Council's procedure rules.

Voluntary Announcement of Other Interests (VAOI)

Where a Member does not have either a DPI or OSI but is of the opinion that for transparency reasons alone s/he should make an announcement in respect of a matter under consideration, they can make a VAOI. A Member declaring a VAOI may still remain at the meeting and vote on the matter under consideration.

Note to the Code:

Situations in which a Member may wish to make a VAOI include membership of outside bodies that have made representations on agenda items; where a Member knows a person involved, but does not have a close association with that person; or where an item would affect the well-being of a Member, relative, close associate, employer, etc. but not his/her financial position. It should be emphasised that an effect on the financial position of a Member, relative, close associate, employer, etc OR an application made by a Member, relative, close associate, employer, etc would both probably constitute either an OSI or in some cases a DPI.

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Minutes

Audit and Governance Committee

Held at:	Council Chamber - Civic Centre Folkestone
Date	Wednesday, 15 March 2023
Present	Councillors Mrs Ann Berry (Chairman), Laura Davison, Terence Mullard, Patricia Rolfe (Vice-Chair) and Rebecca Shoob
Apologies for Absence	Councillor Gary Fuller
Officers Present:	Amandeep Khroud (Assistant Director), Sue Lewis (Case Officer (Committee)), Lydia Morrison (Interim S151 Officer), Mrs Christine Parker (Head of Audit Partnership), Susan Priest (Chief Executive), Charlotte Spendley (Director of Corporate Services) and Brian Thompson (Interim Chief Financial Services Officer)
Others Present:	Andy Vanburen, Independent Member, Paul Dossett and Sophia Y Brown, Grant Thornton

66. **Declarations of Interest**

Councillors Mrs Ann Berry, Patricia Rolfe and Terence Mullard informed they are Directors of Oportunitas and elected members of the main shareholder.

Councillor Rebecca Shoob informed she is a Director of Otterpool Park LLP.

NB: Councillor Terence Mullard informed the committee that he did not think 4 days was sufficient enough time to read the very large agenda pack and therefore informed he would abstain from voting on the first two items – Statement of Accounts 2020/2021 and 2021/2022.

67. **Minutes**

The minutes of the meeting held on 7 December 2022 were submitted, approved and signed by the Chairman.

68. **Statement of Accounts 2020/21**

In accordance with the Accounts and Audit (Amendment) Regulations 2021 the audit of the 2020/21 Accounts has now been fully completed. The final audit findings in relation to the audit of the 2020/21 Statements of Account are set out in Grant Thornton's Audit Findings report.

The Interim Chief Financial Service Officer (CFSO) advised that committee that the 2020/21 accounts had been agreed by the committee on 8 December 2021. The accounts had thus been approved but subject to a delay. The full set of accounts was again being presented to the committee and due to the size of the accounts pack, a 2 page Briefing Note had previously been despatched to committee members to explain the key highlights and any changes to the accounts. The Interim CFSO advised the committee that the Chairman and S151 Officer would be required to sign the Letter of Representation and other pages of the accounts at the conclusion of the meeting if the item was approved.

Approval of the accounts was delayed due to a national accounting issue around Infrastructure Assets which took time to resolve, this has now been resolved with a Statutory Over-ride issues to all accounting bodies and the accounts are now ready to be finally signed by the Chairman and S151 Officer with the final Grant Thornton audit report and opinion. The Interim CFSO also advised the committee that a separate disclosure note on infrastructure assets had been included on page 149 of the agenda pack.

The interim CFSO advised the committee that there had been no significant adjustments required to the accounts that would impact the council's useable reserves or balances.

Grant Thornton advised that there had been some minor adjustments by Auditors but once signed off then they will end the audit of accounts for this year with an un-qualified (un-modified) opinion.

Grant Thornton explained that matters raised by local electors are still being considered but do not form an opinion of the accounts but any significant issues will be considered where appropriate.

A report is being prepared in respect of governance and gifts and interests register which will be taken to CLT in due course with the Monitoring Officer giving assurance and recommendation to publish information as appropriate.

Proposed by Councillor Patricia Rolfe
Seconded by Councillor Rebecca Shoob and

Resolved:

- 1. To receive and note Report AuG/22/24.**
- 2. To consider Grant Thornton's final 2020/21 Audit Findings report (ISA 260) on the 2020/21 Statement of Accounts.**

- 3. To consider the Auditors final 2020/21 Annual Report covering the Value for Money conclusion.**
- 4. To note the 2020/21 Audit Opinion which was unqualified**
- 5. To receive and approve the audited 2020/21 Statement of Accounts.**
- 6. To note and approve the Letter of Representation.**

(Voting: For 4; Against 0; Abstentions 1)

69. Statement of Accounts 2021/22

In accordance with the Accounts and Audit (Amendment) Regulations 2022 the the audit of the 2021/22 Accounts has now been fully completed. The final audit findings in relation to the audit of the 2021/22 Statements of Account are set out in Grant Thornton's Audit Findings report.

The Interim Chief Financial Service Officer (CFSO) advised that committee that the 2021/22 accounts had been reported to the committee on 21 September 2022 and at that time, the accounts were still subject to audit and also delayed due to the national infrastructure issues, which has now been resolved. The final version of the draft 2021/22 accounts had been signed and published on 23 January 2023. The Interim CFSO advsed the committee that the Chairman and S151 Officer would be required to sign the Letter of Representation and other pages of the accounts at the conclusion of the meeting if the item was approved.

The audit of the 2021/22 was now complete and Grant Thornton were in a position to present their final audit report and opinion.

Grant Thornton advised that there had been some minor adjustments by Auditors but once signed off then they will end the audit of accounts for this year with an un-qualified (un-modified) opinion.

Grant Thornton explained that matters raised by local electors are still being considered but do not form an opinion of the accounts but any significant issues will be considered where appropriate.

The Interim CFSO advised the committee that there had been no adjustments required to the accounts that reduced the council's useable reserves or balances. The majority of audit adjustments had been reclassifications with the main adjustment being an impairment for a loan to Otterpool Park LLP of £712k, but again this adjustment had not impacted upon useable reserves or balances.

Due to the size of the accounts item on the agenda, a 2 page Briefing Note had been provided to committee members to highlight any key items or changes to the accounts.

Grant Thornton informed that their anticipated audit report opinion will be unmodified.

They paid particular attention to the following:

Value for Money (VFM) arrangements where weaknesses were identified in respect of breach in council's contract management and procurement arrangements and this will be revisited in Grant Thornton's work for 2022-23.

It is also noted that the Council acted swiftly to address some of the issues raised and these can be found within the documents provided.

Appendix C Audit Adjustments no change other than to note VFM above.

A number of improvement recommendations were reported in respect of financial stability, governance and economy, efficiency and effectiveness these can be found within the documents provided.

Grant Thornton's key recommendation asked that the Council fully action the recommendations set out by Internal Audit and although no definitive timeframe has been set to complete this work it must be noted that an action plan has already been produced by officers, with a number of actions already been completed.

A follow up report will be brought to the committee in due course.

The Chairman and S151 Officer will sign off the accounts once approved today.

Proposed by Councillor Patricia Rolfe
Seconded by Councillor Shoob and

Resolved:

- 1. To consider Grant Thornton's final 2021/22 Audit Findings report (ISA 260) on the 2021/22 Statement of Accounts.**
- 2. To consider Grant Thornton's 2021/22 Annual Report on Value for Money.**
- 3. To receive and approve the audited 2021/22 Statement of Accounts.**
- 4. To note and approve the 2021/22 Letter of Representation.**

(Voting: For 3; Against 0; Abstentions 2)

70. Quarterly Code of Conduct Complaints Update Report

This report provided an update to the Committee on Member Code of Conduct complaints received during quarter 3 of 22/23 (1 October to 31 December 2022).

It was agreed that future reports would include an "Action Taken" (if applicable) to update members on what has been agreed.

Proposed by Councillor Rebecca Shoob
Seconded by Councillor Patricia Rolfe and

Resolved:

1. To receive and note report AuG/22/27.

(Voting: For 5; Against 0; Abstentions 0)

71. Annual Report - Maintaining Ethical Standards

This annual report to the Audit and Performance Committee is submitted in accordance with the Committee's term of reference as follows:

"To receive an annual report on the District Council's ethical governance arrangements".

One of the roles of the council's Monitoring Officer is to advance good governance and ensure the highest standards of ethical behaviour are maintained through the effective discharge of their statutory duties.

The Monitoring Officer informed that although this is a simple report it sets out her views. She is not aware of national statistics but does keep a watch on neighbouring authorities.

Proposed by Councillor Patricia Rolfe
Seconded by Councillor Terence Mullard and

Resolved:

1. To receive and note report AUG/22/31.

(Voting: For 5; Against 0; Abstentions 0)

72. Annual report of the Audit and Governance Committee

This report summarised the achievements of the Audit and Governance Committee against the terms of reference for the period 1 April 2022 to 31 March 2023 and details the impact that it has made on the overall system of internal control in operation.

The Monitoring Officer informed members that if they require further training on any matters covered by any of the reports presented to the Committee then officers would be happy to make arrangements for this to happen.

Proposed by Councillor Rebecca Shoob
Seconded by Councillor Patricia Rolfe and

Resolved:

1. To receive and note report AuG/22/28.

(Voting: For 5; Against 0; Abstentions 0)

73. **Review of Corporate Risk Register**

This report provided an update to the Corporate Risk Register.

Particular attention was paid to the following:

C4 – this now needs updating following the successful award of Levelling up funding.

C2 – an independent organisation has been commissioned to look at Governance and LLP arrangements, with a view to understanding the resources and skills required to deliver the project.

C9 – work is underway to reflect the many changes with promotions and actions to focus on, recruiting to vacant posts and to determine priorities within the HRA business plan.

C15 – significant maintenance costs around Hythe Pool is a growing concern but for now, it is in a stable position.

C13 – the May elections have been highlighted as a risk due to the new extra demands on the team to implement new processes required by government.

It was noted that organisation capacity remains a challenge, with legislative changes and more expectations of districts placed on them from government. An annual report on the adequacy of resources will be presented by the Chief Executive to Personnel Committee in June/July to reflect the risk and members were reminded about the council's financial position requiring a cost savings plan to be prepared which may require some services to be cut or delivered in a significantly different way.

Proposed by Councillor Patricia Rolfe
Seconded by Councillor Laura Davison and

Resolved:

- 1. To receive and note report AuG/22/29.**
- 2. To receive and note the updated Corporate Risk Register.**

(Voting: For 5; Against 0; Abstentions 0)

74. **Review of Risk Management Policy and Strategy**

This report presented an updated Risk Management Policy & Strategy for consideration by the Audit & Governance Committee, ahead of its adoption by Cabinet. The Policy & Strategy provides a framework for the management of risk by Officers and Members. There is a separate report on the agenda which provides an update to the Corporate Risk Register.

It was noted that there had been limited changes other than to inform that there was now an internal operational Risk Management Group. Any changes will be reported to Cabinet and at the next meeting of the committee.

Proposed by Councillor Laura Davison
Seconded by Councillor Rebecca Shoob and

Resolved:

- 1. To receive and note report AuG/22/30.**
- 2. To propose to Cabinet the adoption of the updated Risk Management Policy & Strategy.**

(Voting: For 5; Against 0; Abstentions 0)

75. Local Code of Corporate Governance

This report recommended the approval of a local code of corporate governance for 2023/24.

Proposed by Councillor Terence Mullard
Seconded by Councillor Rebecca Shoob and

Resolved:

- 1. To receive and note report AuG/22/23.**
- 2. To adopt the local code of corporate governance appended.**

(Voting: For 5; Against 0; Abstentions 0)

76. Quarterly Internal Audit Update Report from the Head of East Kent Audit Partnership

This report included the summary of the work of the East Kent Audit Partnership (EKAP) since the last Audit and Governance Committee meeting together with details of the performance of the EKAP to the 31st December 2022.

EKAP gave assurance to the committee that management agree the action plan set out which will be monitored to see if the recommendations have been embedded, been effective and consistently applied.

Proposed by Councillor Laura Davison
Seconded by Councillor Terence Mullard and

Resolved:

- 1. To receive and note Report AuG/22/25.**
- 2. To note the results of the work carried out by the East Kent Audit Partnership.**

(Voting: For 5; Against 0; Abstentions 0)

77. Internal Audit Charter and Draft Internal Audit Plan 2023/24 from the Head of East Kent Audit Partnership

This report included the Audit Charter for the East Kent Audit Partnership which sets out the overarching vision, aims and strategy for the Internal Audit Service together with the draft plan of work for the forthcoming 12 months for approval.

It was noted the plan is sufficient with the necessary resources in place with the level of audit provision being sound.

Proposed by Councillor Patricia Rolfe
Seconded by Councillor Rebecca Shoob and

Resolved:

- 1. To receive and note Report AuG/22/26.**
- 2. That Members approve (but not direct) the Council's Internal Audit Plan for 2023/24.**
- 3 That Members approve to adopt the Internal Audit Charter for delivery of the internal audit service for the next three years.**

(Voting: For 5; Against 0; Abstentions 0)

This Report will be made public on 12 July 2023



Report Number **AuG/23/02**

To: Audit and Governance Committee
Date: 20 July 2023
Status: Non – executive decision
Responsible Officer: Lydia Morrison, Interim S151 Officer and Director of Corporate Services

SUBJECT: EXTENSION OF TERM OF OFFICE OF INDEPENDENT MEMBER OF THE AUDIT AND GOVERNANCE COMMITTEE

SUMMARY: In December 2019, Full Council agreed to the recommendations of the Audit and Governance Committee to appoint an Independent member to the Audit and Governance Committee. It had been envisaged the appointment would run until May 2023. However, due to the pandemic, the recruitment exercise was delayed, and an appointment was not made until November 2020. The Committee is therefore asked to recommend to Full Council that Andy Vanburen’s term be extended until November 2024. This also assists in maintaining continuity of committee membership where membership has been affected by the electoral cycle.

RECOMMENDATIONS:

- 1. To receive and note report AuG/23/02.**
- 2. To recommend to Full Council that the appointment of Andy Vanburen be extended to November 2024.**
- 3. That delegated authority be given to the Interim S151 Officer and Director of Corporate Services in consultation with the Chairman of the Audit and Governance Committee to draw up a person specification and to commence the recruitment process in the summer of 2024.**

1. BACKGROUND

- 1.1 On 4 December 2019, the Audit and Governance Committee considered report AuG/19/14 which set out CIPFA's Publication - Practical Guidance for Local Authorities and Police, 2018 Edition.
- 1.2 The publication set out its guidance on the function and operation of audit committees in local authorities and police bodies and represents CIPFA's view of best practice for audit committees in local authorities throughout the UK and recommended the inclusion of an independent member on the Committee. Good practice shows that co-option of independent members is beneficial to the audit committee. The injection of an external view can often bring a new approach to committee discussions. It also brings additional knowledge and expertise to the committee and reinforces the political neutrality and independence of the committee.
- 1.3 Following consideration of the report, the Audit and Governance Committee recommended to Council that an independent Member be appointed to the Committee.
- 1.4 On 18 December 2019, Full Council considered report A/19/20 and resolved that an independent member be appointed to the Audit and Governance Committee.
- 1.5 A recruitment exercise was then undertaken, and at a Special meeting of the Audit and Governance Committee, held on 24 November 2020, Andy Vanburen was appointed as the Independent Member of the Committee.
- 1.6 The original report to the Committee had stated that it was envisaged that the appointment would be until the end of the current council (May 2023). However, due to the pandemic, there were delays in the recruitment process, and a year had passed before the appointment of Andy Vanburen was made.
- 1.7 It is therefore recommended that Andy Vanburen's appointment be extended to 23 November 2024. Prior to the expiry of the term of office a recruitment exercise will be undertaken. The extension of Andy Vanburen's term will also assist in maintaining continuity of committee membership where membership has been affected by the electoral cycle.
- 1.8 Delegated authority is sought for the Interim S151 Officer and Director of Corporate Services to draw up a person specification and to commence the recruitment process. A further report will be brought back to the Committee in Autumn 2024 with recommendations on persons to be invited for interview with a view to interviews being conducted shortly thereafter.

2. RISK MANAGEMENT ISSUES

- 2.1 There are no significant risk management issues to consider as part of this report other than those identified within the report.

3. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

3.1 Legal Officer's Comments (AK)

The general power in section 102 of the Local Government Act 1972 to appoint a Committee includes the power to appoint persons to that committee who are not members of the Council. However, by virtue of section 13 of the Local Government and Housing Act 1989 co-opted members are treated as non-voting members unless the committee is acting in an advisory capacity.

3.2 Finance Officer's Comments (TM)

There are no immediate financial implications arising out of this report.

3.3 Diversities and Equalities Implications (TM)

There are no implications arising out of this report.

4. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting

Lydia Morrison, Interim S151 Officer and Director of Corporate Services
Email: lydia.morrison@folkestone-hythe.gov.uk

The following background documents have been relied upon in the preparation of this report:

CIPFA's Practical Guidance for Local Authorities and Police 2018 Edition

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This Report will be made public on 12 July 2023



Report Number **AuG/23/01**

To: Audit and Governance
Date: 20 July 2023
Status: Non – executive decision
Responsible Officer: Amandeep Khroud – Assistant Director – Governance and Law

SUBJECT: QUARTERLY CODE OF CONDUCT COMPLAINTS UPDATE REPORT

SUMMARY: This report provides an update to the Committee on Member Code of Conduct complaints received during quarter 4 of 22/23 (1 January to 31 March 2023), and quarter 1 of 23/24 (1 April to 30 June 2023).

RECOMMENDATIONS:

- 1. To receive and note report AuG/23/01.**

1. INTRODUCTION

- 1.1 Section 27 of the Localism Act 2011 requires that relevant authorities have a statutory duty to promote and maintain high standards of conduct by Members and co-opted Members of the authority.
- 1.2 Authorities are required to adopt a Code dealing with the conduct that is expected of Members when they are acting in that capacity.
- 1.3 Section 28 of the Localism Act 2011 requires that Councils in England have in place arrangements under which allegations can be investigated and on which decisions on allegations can be made.
- 1.4 The terms of reference of the Audit and Governance Committee require the Committee to receive quarterly reports (or less frequently, if there are no complaints to report), from the Monitoring Officer on the number and nature of complaints received, and action taken, as a result, in consultation with the Independent Person.

2. SUMMARY OF COMPLAINTS

- 2.1 For the period 1 January to 31 March 2023, there were a total of 2 complaints. For the period 1 April to 30 June 2023, no complaints have been received.

These can be categorised as follows:

	1 January to 31 March	1 April to 30 June
Complaints by members against members	0	0
Complaints by members of the public	2	0

2.2 Types of complaints

Whilst it is not possible to identify particular trends in the nature of the complaints made (and some complaints may include multiple complaints), the following broad types of complaint have been received:

	Q4	Q1
Public statements including social media / website / internet / email comment	0	n/a
Unacceptable Conduct at Council/Committee	1	n/a
Conflict of interest	0	n/a
Breach of Member/officer protocol	1	n/a
Breach of data protection rules	0	n/a
Other/miscellaneous	0	n/a

2.3 Investigation of complaints

The Monitoring Officer will initially consider the complaint and decide if formal investigation is required. Any formal investigation will be carried out by an independent person, who will then report to the Monitoring Officer. The Monitoring Officer will then report to the Audit and Governance if a breach of the Code of Conduct is found and will advise the committee as to whether further action is recommended.

For the complaints referred to above both the complaints were not deemed to be breaches of the Code of Conduct. No investigations have been conducted during the period of 1 January up to 30 June 2023.

3. RISK MANAGEMENT ISSUES

3.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
None			

4. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

4.1 Legal Officer's Comments (AK)

No legal comments.

4.2 Finance Officer's Comments (TM)

There are no direct financial implications arising from this report.

4.3 Diversities and Equalities Implications

5. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting:

Amandeep Khroud – Assistant Director – Governance and Law

Tel No: 01303 853253

Email: Amandeep.khroud@folkestone-hythe.gov.uk

The following background documents have been relied upon in the preparation of this report:

None

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This Report will be made public on 12 July 2023



Report Number **AuG/23/03**

To: Audit and Governance Committee
Date: 20 July 2023
Status: Non-Executive Decision
Corporate Director: Lydia Morrison – Interim Director – Corporate Services (S151)

SUBJECT: QUARTERLY INTERNAL AUDIT UPDATE REPORT FROM THE HEAD OF THE EAST KENT AUDIT PARTNERSHIP

SUMMARY: This report includes the summary of the work of the East Kent Audit Partnership (EKAP) since the last Audit and Governance Committee meeting together with details of the performance of the EKAP to the 31st May 2023.

REASONS FOR RECOMMENDATION:

The Committee is asked to agree the recommendations set out below because: In order to comply with best practice, the Audit and Governance Committee should independently contribute to the overall process for ensuring that an effective internal control environment is maintained.

RECOMMENDATIONS:

1. To receive and note Report AuG/23/03.
2. To note the results of the work carried out by the East Kent Audit Partnership.

1. INTRODUCTION

- 1.1 This report includes the summary of the work completed by the East Kent Audit Partnership (EKAP) since the last Audit and Governance Committee meeting.

2. AUDIT REPORTING

- 2.1 For each Audit review, management has agreed a report, and where appropriate, an Action Plan detailing proposed actions and implementation dates relating to each recommendation. Reports continue to be issued in full to the relevant Heads of Service, as well as an appropriate manager for the service reviewed.
- 2.2. Follow-up reviews are performed at an appropriate time, according to the status of the recommendation, timescales for implementation of any agreed actions and the risk to the Council.
- 2.3. An assurance statement is given to each area reviewed. The assurance statements are linked to the potential level of risk, as currently portrayed in the Council's risk assessment process. The assurance rating given may be substantial, reasonable, limited or no assurance.
- 2.4 Those services with either limited or no assurance are monitored and brought back to Committee until a subsequent review shows sufficient improvement has been made to raise the level of assurance to either reasonable or substantial. There are currently five reviews with such a level of assurance as shown in appendix 2 of the EKAP report.
- 2.5 The purpose of the Council's Audit and Governance Committee is to provide independent assurance of the adequacy of the risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements and to seek assurance that action is being taken to mitigate those risks identified.
- 2.6 To assist the Committee in meeting its terms of reference with regard to the internal control environment an update report is regularly produced on the work of internal audit. The purpose of this report is to detail the summary findings of completed audit reports and follow-up reviews since the report submitted to the last meeting of this Committee.

3. SUMMARY OF WORK

- 3.1. There have been five audit reports completed during the period. These have been allocated assurance levels as follows: one was Substantial, two were Reasonable, one was Reasonable / Limited and one was Limited assurance. Summaries of the report findings are detailed within Annex 1 to this report.
- 3.2 In addition three follow up reviews have been completed during the period. The follow up reviews are detailed within section 3 of the update report.

3.3 For the period to 31st May 2023 41.28 chargeable days were delivered against the planned target for the year of 350 days, which equates to achievement of 12% of the planned number of days.

4. RISK MANAGEMENT ISSUES

4.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
Non completion of the audit plan	Medium	Low	Review of the audit plan on a regular basis
Non implementation of agreed audit recommendations	Medium	Low	Review of recommendations by Audit and Governance Committee and Audit escalation policy.
Non completion of the key financial system reviews	Medium	Medium	Review of the audit plan on a regular basis. A change in the external audit requirements reduces the impact of non-completion on the Authority.

5. LEGAL, FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

5.1 Legal Officer's comments (AK)

No legal officer comments are required for this report.

5.2 Finance Officer's Comments (LM)

Responsibility for the arrangements of the proper administration of the Council's financial affairs lies with the Director – Corporate Services (s.151). The internal audit service helps provide assurance as to the adequacy of the arrangements in place. It is important that the recommendations accepted by Heads of Service are implemented and that audit follow-up to report on progress.

5.3 **Head of the East Kent Audit Partnership comments (CP)**

This report has been produced by the Head of the East Kent Audit Partnership and the findings / comments detailed in the report are the service's own, except where shown as being management responses.

5.4 **Diversities and Equalities Implications (CP)**

This report does not directly have any specific diversity and equality implications however it does include reviews of services which may have implications. However none of the recommendations made have any specific relevance.

6. **CONTACT OFFICERS AND BACKGROUND DOCUMENTS**

- 6.1 Councillors with any questions arising out of this report should contact either of the following officers prior to the meeting.

Christine Parker; Head of the Audit Partnership
Telephone: 01304 872160 Email: Christine.parker@folkestone-hythe.gov.uk

Lydia Morrison; Interim Director – Corporate Services (s.151)
Telephone: 01303 853420 Email: Lydia.morrison@folkestone-hythe.gov.uk

- 6.2 The following background documents have been relied upon in the preparation of this report:

Internal Audit working papers - Held by the East Kent Audit Partnership.

Attachments

Annex 1 – Quarterly Update Report from the Head of the East Kent Audit Partnership.

INTERNAL AUDIT UPDATE REPORT FROM THE HEAD OF THE EAST KENT AUDIT PARTNERSHIP

1. INTRODUCTION AND BACKGROUND

1.1 This report includes the summary of the work completed by the East Kent Audit Partnership since the last Audit and Governance Committee meeting, together with details of the performance of the EKAP to the 31st May 2023.

2. SUMMARY OF REPORTS

Service / Topic		Assurance level	No of recs	
2.1	Members Allowances	Substantial	C	0
			H	0
			M	1
			L	0
2.2	Homelessness	Reasonable	C	0
			H	2
			M	4
			L	5
2.3	Fraud Assurance	Reasonable	C	0
			H	4
			M	2
			L	2
2.4	Employee Benefits in Kind	Reasonable / Limited	C	0
			H	3
			M	1
			L	0
2.5	Housing Tenancy Fraud	Limited	C	0
			H	6
			M	5
			L	1

2.1 Members Allowances – Substantial Assurance

2.1.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that Councillors are paid in accordance with the

approved scale of allowances and that adequate evidence is required and monitored where appropriate.

2.1.2 Summary of Findings

The Members' Allowances Scheme is prescribed under regulation and must comply with The Local Authorities (Members Allowances) (England) Regulations 2003 (as amended). These regulations allow for certain allowances to be paid each year to Councillors to assist them in undertaking their public role for the district. Other expenses such as Special Responsibility Allowances and travel and subsistence are also allowable under the scheme. The amounts payable are recommended by an Independent Remuneration Panel, a notice is to be published in at least one local newspaper circulating the local area to state that it has received the report and to summarise its findings. The full report will detail recommendations made by the panel relating to the scheme and copies are to be provided to any persons who request it and who pay the authority such reasonable fee as the authority may determine. The Council must consider the Panels' recommendations but does not need to accept them.

Details of the allowances paid should be published as soon as reasonably practicable after the year end to which the scheme relates.

The primary findings giving rise to the Substantial Assurance opinion in this area are as follows:

- The Members Allowances Scheme complies with the regulations currently in place regarding the scheme.
- There are regular reviews undertaken of the Members Allowances scheme and the allowances paid by the Independent Remuneration Panel and recommendations are considered where required.
- The allowances and expenses paid at the end of the year are published in a local newspaper and are also detailed on the Council's website as required.
- The expenses claimed by Councillors are checked and authorised prior to payment.

Scope for improvement was however identified in one area:

- When publishing the annual allowances and expenses paid for Councillors the data should be thoroughly checked prior to publication on the Council's website and also in the local newspaper.

2.2 Homelessness – Reasonable Assurance

2.2.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established regarding the Homelessness strategy and function to ensure that they meet all relevant legislation and also the requirements for homeless people within the district.

2.2.2 Summary of Findings

The Council's powers and duties '*where people apply to them for accommodation or assistance in obtaining accommodation in cases of homelessness or threatened homelessness*' are set out in Part 7 of the Housing Act 1996; which is the primary homelessness legislation.

In 2002, the homelessness legislation was amended under the Homelessness Act 2002 and the Homelessness (Priority Need for Accommodation) (England) Order 2002 was introduced in order to ensure a strategic approach to tackling and preventing homelessness. The Homelessness Reduction Act 2017 reformed the legislation by placing duties on local authorities to intervene at an early stage to prevent homelessness rising in their area.

The Homelessness Act 2002 places a requirement on the Council to formulate and publish a homelessness strategy based on the results of a review of homelessness in the district.

The Homelessness Reduction Act 2017 places a set of duties on the Council to intervene at earlier stages to prevent homelessness in the district and to take reasonable steps to prevent and relieve homelessness for all eligible applicants, not just those that have priority need under the Act.

These additional duties on Housing authorities are to provide or secure the provision of advice and information about homelessness and the prevention of homelessness, free of charge. This places an additional burden on the service and makes it a more time-consuming process for every person presenting as homeless.

Listed below are the homelessness approaches figures for the current year to date and the two previous years, obtained from the performance reports.

Year	Homeless Approaches
2020/2021	1,402
2021/2022	1,619
2022/2023 up to 31 Dec 2022	1,284

The primary findings giving rise to the Reasonable Assurance opinion in this area are as follows:

- For homelessness approaches made to the Council appropriate advice or assistance is given.
- The Housing Options Team makes appropriate use of a variety of options available to them to assist those who approach the Council as homeless, or at risk of homelessness.
- Emergency accommodation is available and utilised if the circumstances require it.
- An effective Out of Hours service is available.
- The current Homelessness Prevention Strategy 2020/25 went out to public consultation before being approved at Cabinet.
- Regular budget monitoring takes place.

Scope for improvement was however identified in the following areas:

- The procurement of private temporary accommodation must comply with the Council's Contract Standing Orders.
- The policy of paying deposits/rent in advance to enable homeless clients in temporary accommodation to private secure tenancies has not been documented or approved.
- Formal correspondence templates must not be overwritten, to prevent them from being illegible.

2.3 Fraud Assurance – Reasonable Assurance

2.3.1 Audit Scope

To ensure that the Council's anti-fraud measures are sufficient to protect the Council against fraudulent acts, both internal and external and that the procedures in place meet the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption.

2.3.2 Summary of Findings

'Fraud against the public sector impacts everyone. It takes hard-earned taxes away from vital public services and directs it towards people who do not deserve it.'

(Mark Cheeseman – Interim Chief Executive Public Sector Fraud Authority)

Fraud is estimated to account for 40% of all crime committed across the UK and is a long-standing threat to public services. For local authorities alone CIPFA has estimated the total value of fraud identified and prevented in 2019/20 is approximately £239 million.

Fraudsters are constantly revising and sharpening their techniques and local authorities need to do the same. There is a clear need for a tough stance supported by elected members, chief executives and those charged with governance.

As part of the government's response to increasing fraud it launched the Public Sector Fraud Authority (PSFA) in 2022, as a new centre of expertise for the prevention and management of fraud. The PSFA has been given a target to detect and prevent £180 million of fraud in its first year of operation, backed by £25 million of funding. Longer term targets are expected to be announced by the end of 2023.

Although local authorities are not yet mandated to engage with the PSFA in the same way as ministerial departments and other public bodies they are expected to engage with the PSFA; and make use of the guidance and tools that it provides.

The risk is that the Council could lose valuable resource as a result of fraudulent activity. Fraud in any organisation can never be completely eliminated, however the risk of fraud occurring within any organisation must always be considered and controls put in place to reduce that risk. The Council needs to be agile and work together with national agencies and the government to respond to fraud threats.

The Council has a responsibility to:

- To develop and maintain effective controls to prevent fraud.
- To ensure prompt detection.
- To carry out a vigorous and prompt investigation.
- To deal with offenders appropriately.

The primary findings giving rise to the Reasonable Assurance opinion in this area are as follows:

- An updated Anti-fraud Fraud and Corruption Framework is in place which includes a Fraud response Plan, Whistleblowing Protocol, Anti-bribery Policy and Anti-Money Laundering Policy.
- Codes of Conduct for officers and members are clear and are being actively communicated to staff.
- Annual training is provided to staff on fraud awareness.
- The Council has in place a framework of internal controls which are being actively reviewed as part of an annual risk based internal audit plan.
- Some use of data analytics is being made, moving forward this should be further built upon through utilising government initiatives and in house resources.

Scope for improvement was however identified in the following areas:

- A fraud risk assessment should be undertaken to ensure that the Council fully understands its fraud risks, to enable a fraud action plan to be formulated and monitored and ensure resources to tackle fraud are appropriate and sufficient.
- Fraud reporting must include a summary of all suspicions and reports of fraud i.e., whistleblowing and outcomes of investigations, and be presented to Corporate Leadership Team and the Audit and Governance Committee.
- Fraud data published under the Transparency Code 2015 must include all types of fraud suspected, reported and investigated.

2.4 Employees Benefits in Kind – Reasonable / Limited Assurance

2.4.1 Audit Scope

To provide assurance on the internal controls established in respect of the treatment of employee benefits in kind, such as lease electric car, the provision of electric bicycles or health benefits with regard to national insurance and income tax liabilities for both the Council and the employee.

2.4.2 Summary of Findings

Employee benefits in kind are additional benefits provided by the employer (that can in some instances attract an income tax liability for the employee) to enhance the employee working environment. There are several types of benefits in place including the new employee sacrifice schemes for cars and bikes.

The primary findings giving rise to the Reasonable Assurance opinion in this area are as follows:

- Processes are in place to ensure that the salary sacrifice schemes are being administered correctly and the correct information is being reported to HMRC.

The primary findings giving rise to the Limited Assurance opinion in this area are as follows:

- Clarification should be sought from HMRC as whether the payroll dispensations from 2014 are valid (no longer issued from 2016) or if new payroll exemptions need to be applied for and if they are, then the applications should be submitted immediately to avoid any possible income tax and national insurance non-compliance issues.
- Consideration should be given for HR Officers and any other applicable staff to receive some additional training to ensure that their knowledge base regarding taxable benefits is up to date.

Management comment

The audit has evidenced that correct procedures are in place for the administration of employee benefits such as Smart Tech, Cycle to Work and Salary Sacrifice Car Lease, all of which are operated through the F&H Rewards platform. Where recommendations have been made in relation to other areas, any necessary actions will be taken to ensure compliance with HMRC guidance and reporting requirements. (Chief HR Officer).

2.5 Housing Tenancy Fraud – Limited Assurance

2.4.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that effective arrangements are in place to ensure that housing tenancy fraud is being tackled.

2.4.2 Summary of Findings

The Council has a duty to take effective measures against tenancy fraud in terms of providing an effective housing management service and safeguarding the public purse. Often deterrence and prevention are more cost effective than detection, correction and pursuit. Common housing tenancy frauds are:

- Not using the property as the 'sole or principal home' to include abandoning the property, succeeding to, or assigning the tenancy without the Council's permission after the legal tenant has moved or died.
- Attempting to obtain a property using false statements (for example falsely claiming to be homeless and/or using false documents (for example using a forged passport or claiming to be someone else),
- Right to buy, providing misleading or false information on an application to purchase the property.
- Unlawful subletting, letting the entire property to a third party.
- Key Selling is where a tenant 'sells' the keys, and so passes on occupation of their property to another person in return for money, a favour carried out, or in

return for goods received. There may also be instances where a tenant gives the key to another party without charge.

The Council has an interest in identifying dwellings that have been fraudulently acquired, succeeded, assigned, or sublet. Recovering these properties means that the Council can ensure their housing is only occupied by tenants who qualify for social housing in line with its allocation policy. It enables the Council to make best use of its housing stock, reduces its housing waiting list and reduces the number of families placed in temporary accommodation pending an offer of suitable permanent housing.

The primary findings giving rise to the Limited Assurance opinion in this area are as follows:

- There is a lack of specialised tenancy fraud and ID document verification training for housing staff.
- A central record of all suspicions of, and the outcome of, enquiries or investigations is not being maintained.
- Opportunities to publicise tenancy fraud prevention and reporting within the district are missed which may result in suspicions of fraud going unreported.
- There is a lack of data analysis and intelligence to direct tenancy audits to those tenancies most likely to be at risk of fraud; and the current rolling programme of tenancy checks target is not being reached year on year.
- There is a lack of reporting on tenancy fraud to management and members.

Effective control was however evidenced in the following areas:

- A Tenancy Fraud Procedure is in place, which has been communicated to housing staff.
- Housing services are aware of the types of fraud vulnerabilities it is open to with some preventative and detective controls in place. However, these fraud risks have not been formally recorded in a risk register.
- Housing has joined the Tenancy Fraud Forum and officers are keen to proactively work to prevent and detect fraud.
- The Council participates in data matching exercises such as the National Fraud Initiative (NFI) to detect and prevent fraud.

Management Comment

The Neighbourhood Management service welcomes this report and its findings. These were issued in mid-June, and work is already underway to act on the recommendations: the Landlord service takes the risk of tenancy fraud seriously and already works closely with the corporate Investigations Specialist wherever there is any suspicion of fraud, and we act pro-actively in areas known to be a fraud risk, such as tenancy successions.

Although we are confident that there are effective arrangements in place to ensure that housing tenancy fraud is being tackled as a high priority, we continue to work on tightening up the procedures and controls ensuring that prevention measures, such

as tenancy checks ID document verification are monitored and rolling out more training to our officers.

We recognise that publicising and reporting on outcomes may help deter some tenants, and currently legal action is being taken against two tenants who have passed on their tenancies to someone else without permission. Once this matter has been resolved, we will look to report on the outcomes, particularly in terms of the financial saving to the HRA. (Chief Officer Housing)

FOLLOW UP OF AUDIT REPORT ACTION PLANS

3.1 As part of the period's work three follow up reviews have been completed of those areas previously reported upon to ensure that the recommendations previously made have been implemented, and the internal control weaknesses leading to those recommendations have been mitigated. Those completed during the period under review are shown in the following table.

3.2

Service / Topic	Original Assurance level	Revised Assurance level	Original recs	Outstanding recs
COVID Grants	Reasonable	Reasonable	C 0 H 0 M 3 L 0	C 0 H 0 M 1 L 0
Scheme of Delegations	Reasonable	Reasonable	C 0 H 4 M 1 L 2	C 0 H 0 M 0 L 1
Disposal of Logs	N/A	N/A	C 0 H 1 M 0 L 1	C 0 H 0 M 0 L 0

3.3 Details of any individual critical or high priority recommendations outstanding after follow-up are included at Annex 1 and on the grounds that these recommendations have not been implemented by the dates originally agreed with management, they are now being escalated for the attention of the s.151 Officer and Members of the Audit & Governance Committee (none this quarter).

The purpose of escalating outstanding high-priority recommendations which have not been implemented is to try to gain support for any additional resources (if required) to resolve the risk, or to ensure that risk acceptance or tolerance is approved at an appropriate level.

4.0 WORK IN PROGRESS

4.1 During the period under review, work has also been undertaken on the following topics, which will be reported to this Committee at future meetings: Tenants Health & Safety, Financial Procedure Rules, CIL Scheme, Waste Management and FCWP

5.0 CHANGES TO THE AGREED AUDIT PLAN

5.1 The 2023-24 audit plan was agreed by Members at the meeting of the Audit & Governance Committee on 15th March 2023.

5.2 The Head of the Audit Partnership meets on a regular basis with the Section 151 Officer or their deputy to discuss any amendments to the plan. Members of the Committee will be advised of any significant changes through these regular update reports. Minor amendments are made to the plan during the course of the year as some high-profile projects or high-risk areas may be requested to be prioritised at the expense of putting back or deferring to a future year some lower risk planned reviews. The detailed position regarding when resources have been applied and or changed are shown as Appendix 3.

6.0 FRAUD AND CORRUPTION

There are currently no reported incidents of fraud or corruption being investigated by EKAP on behalf of Folkestone-Hythe District Council.

7.0 INTERNAL AUDIT PERFORMANCE

7.1 For the period ended 31st May 2023 41.28 chargeable days were delivered against the planned target for the year of 350 which equates to achievement of 12% of the original planned number of days.

7.2 The financial performance of the EKAP for 2023-24 is on target.

Attachments

Appendix 1 Summary of high priority recommendations outstanding after follow up.

Appendix 2 Summary of services with limited / no assurances yet to be followed up.

Appendix 3 Progress to 31st May 2023 against the 2023-24 Audit plan.

Appendix 4 Assurance Definitions.

SUMMARY OF CRITICAL /HIGH PRIORITY RECOMMENDATIONS OUTSTANDING AFTER FOLLOW-UP – APPENDIX 1		
Original Recommendation	Agreed Management Action, Responsibility and Target Date	Manager’s Comment on Progress Towards Implementation.
None		

SERVICES GIVEN LIMITED / NO ASSURANCE LEVELS YET TO BE REVIEWED			
Service	Reported to Committee	Level of Assurance	Follow-up Action Due
Housing Planned Maintenance - Contracts	July 2022	No assurance	June 2023
Officers' Interests	September 2022	Reasonable / Limited	June 2023
Contract Management – Controls & Governance	December 2022	Limited	June 2023
Car Parking Income	December 2022	Substantial / Limited	June 2023
Garden Waste – Recycling Management	December 2022	Limited	June 2023

**PROGRESS AGAINST THE AGREED AUDIT PLAN 2023/24
FOLKESTONE & HYTHE DISTRICT COUNCIL**

Review	Original Planned Days	Revised Planned Days	Actual To 31/05/2023	Status and Assurance level
FINANCIAL SYSTEMS:				
Budgetary Control	10	10	-	Quarter 2
Business Rates	10	10	0.07	Quarter 2
Capital	10	10	-	Quarter 3
Creditors Duplicates Testing	2	2	0.37	Quarter 2
Housing Benefit Subsidy	10	10	-	Quarter 3
Miscellaneous Grants	10	10	-	Quarter 4
HOUSING SYSTEMS:				
Anti-Social Behaviour	10	10	0.20	Quarter 3
Housing Capital	10	10	0.03	Quarter 2
Housing Contract Letting	10	10	0.17	Quarter 2
Housing Allocations	10	10	0.03	Quarter 4
New Build Capital	10	10	0.03	Quarter 4
Rechargeable works	10	10	-	Quarter 3
Rent setting	10	10	-	Quarter 3
Sheltered Housing	10	10	0.14	Quarter 1
Tenancy & Estate Management	10	10	0.12	Quarter 1
GENERAL FUND HOUSING				
Leaseholders Services	10	10	0.03	Quarter 4
HMOs	10	10	-	Quarter 3
INFORMATION GOVERNANCE				
Freedom of Information	10	10	-	Quarter 4
TECHNOLOGY / CYBER:				
ICT Review	10	10	-	Quarter 4
CORPORATE GOVERNANCE:				
Otterpool Park Governance	10	10	0.20	Quarter 4
Financial Procedure Rules	5	5	0.27	Work-in-Progress
RIPA	4	4	-	Quarter 4
SERVICE LEVEL				
Climate Change	4	4	-	Quarter 3
Employee Health & Safety	10	10	-	Quarter 4
Environmental Protection	10	10	0.20	Quarter 2
FCWP	10	7	6.59	Work-in-Progress

Review	Original Planned Days	Revised Planned Days	Actual To 31/05/2023	Status and Assurance level
CILs	10	10	2.97	Work-in-Progress
Waste Collection	15	15	4.26	Work-in-Progress
HUMAN RESOURCES:				
Payroll	10	10	-	Quarter 3
Recruitment & Leavers	10	10	0.07	Quarter 2
OTHER:				
Committee Reports & Meetings	10	10	1.84	Ongoing
s.151 Meetings & Support	10	10	2.17	Ongoing
Corporate Advice / CMT	5	5	0.24	Ongoing
Liaison with External Audit	1	1	-	Ongoing
Audit Plan Prep & Meetings	10	10	2.02	Ongoing
Follow Up Reviews	14	14	2.98	Ongoing
Complaints Sampling		3	1.28	Work-in-Progress
Elections	0	1	1.41	Completed – N/A
FINALISATION OF 2022-23 AUDITS:				
Employee Benefits in Kind	1	1	0.27	Finalised – Reasonable / Limited
Tenancy Counter Fraud	4	4	4.48	Finalised - Reasonable
Tenancy Health & Safety	7	7	0.41	Work-in-Progress
Procurement Secondment	7	7	7.50	Finalised – N/A
Procurement Matters	1	1	0.93	Finalised – N/A
Total	350	350	41.28	12%

Definition of Audit Assurance Statements & Recommendation Priorities

CiPFA Recommended Assurance Statement Definitions:

Substantial assurance - A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Reasonable assurance - There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

Limited assurance - Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

No assurance - Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

EKAP Priority of Recommendations Definitions:

Critical – A finding which significantly impacts upon a corporate risk or seriously impairs the organisation's ability to achieve a corporate priority. Critical recommendations also relate to non-compliance with significant pieces of legislation which the organisation is required to adhere to and which could result in a financial penalty or prosecution. Such recommendations are likely to require immediate remedial action and are actions the Council must take without delay.

High – A finding which significantly impacts upon the operational service objective of the area under review. This would also normally be the priority assigned to recommendations relating to the (actual or potential) breach of a less prominent legal responsibility or significant internal policies; unless the consequences of non-compliance are severe. High priority recommendations are likely to require remedial action at the next available opportunity or as soon as is practical and are recommendations that the Council must take.

Medium – A finding where the Council is in (actual or potential) breach of - or where there is a weakness within - its own policies, procedures or internal control measures, but which does not directly impact upon a strategic risk, key priority, or the operational service objective of the area under review. Medium priority recommendations are likely to require remedial action within three to six months and are actions which the Council should take.

Low – A finding where there is little if any risk to the Council or the recommendation is of a business efficiency nature and is therefore advisory in nature. Low priority recommendations are suggested for implementation within six to nine months and generally describe actions the Council could take.

This Report will be made public on 12 July 2023



Report Number **AuG/23/04**

To: Audit and Governance Committee
Date: 20 July 2023
Status: Non-Executive Decision
Corporate Director: Lydia Morrison – Interim Director – Corporate Services (s.151)

SUBJECT: INTERNAL AUDIT ANNUAL REPORT 2022-23

SUMMARY:

This report provides a summary of the work undertaken by the East Kent Audit Partnership to support the annual opinion. The report includes the Head of Audit Partnership's opinion on the overall adequacy and effectiveness of the system of internal control in operation and informs the Annual Governance Statement for 2022-23, together with details of the performance of the EKAP against its targets for the year ending 31st March 2023.

REASONS FOR RECOMMENDATION:

The Committee is asked to agree the recommendations set out below because: In order to comply with best practice, the Audit & Governance Committee should independently contribute to the overall process for ensuring that an effective internal control environment is maintained.

RECOMMENDATIONS:

- 1. To receive and note the Opinion of the Head of Audit Partnership in Report AuG/23/04.**
- 2. To receive and note the Annual Report detailing the work of the EKAP and its performance to underpin the 2022-23 opinion.**

1.0 INTRODUCTION

1.1 The primary objective of Internal Audit is to provide independent assurance to Members, the Head of Paid Service, Directors and the Section 151 Officer on the adequacy and effectiveness of those systems on which the Authority relies for its internal control. The purpose of bringing forward an annual report to members is to:

- Provide an opinion on the overall adequacy and effectiveness of the Council's internal control environment.
- Present a summary of the internal audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies,
- Draw attention to any issues the Head of the Audit Partnership judges particularly relevant to the preparation of the Annual Governance Statement.
- Compare actual audit activity with that planned and summarise the performance of Internal Audit against its performance criteria.
- Comment on compliance with the Public Sector Internal Audit Standards (PSIAS) and report the results of the Internal Audit quality assurance programme.
- Confirm annually that EKAP is organisationally independent, whether there have been any resource limitations or instances of restricted access.

1.2 The report attached as Annex A therefore summarises the performance of the East Kent Audit Partnership (EKAP) and the work it has performed over the financial year 2022-23 for Folkestone & Hythe District Council, and provides an opinion on the system for governance, risk management and internal control based on the audit work undertaken throughout the year, in accordance with best practice. In providing this opinion, this report supports the Annual Governance Statement.

1.3 The EKAP delivered 99.35% of the agreed audit plan days to F&HDC. The performance figures for the East Kent Audit Partnership as a whole for the year show good performance against the targets. It is the opinion of the Head of Audit that sufficient work has been undertaken to be able to support an opinion for 2022-23.

1.4 No system of control can provide absolute assurance, nor can Internal Audit give that assurance. This opinion is intended to provide assurance that there is an ongoing process for identifying, evaluating and managing the key risks.

2.0 RISK MANAGEMENT ISSUES

2.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
Non completion of the audit plan	Medium	Low	Review of the audit plan on a regular basis

Non implementation of agreed audit recommendations	Medium	Low	Review of recommendations by Audit & Governance Committee and Audit escalation policy.
Non completion of the key financial system reviews	Medium	Medium	Review of the audit plan on a regular basis. A change in the External Audit requirements reduces the impact of non-completion on the Authority.

3.0 LEGAL, FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

3.1 Legal Officer's comments –

There are no legal issues arising out of this report.

3.2 Finance Officer's Comments –

Responsibility for the arrangements of the proper administration of the Council's financial affairs lies with the Chief Finance Officer. The internal audit service helps provide assurance as to the adequacy of the arrangements in place. It is very reassuring that EKAP have given positive feedback on their overall assessment of the Council's system of internal controls for 2022-23, stating that there were "no major areas of concern".

3.3 Head of the East Kent Audit Partnership comments –

This report has been produced by the Head of the East Kent Audit Partnership and the findings / comments detailed in the report are the Partnership's own, except where shown as being management responses.

3.4 Diversities and Equalities Implications

This report does not directly have any specific diversity and equality implications however it does include reviews of services which may have implications.

4.0 CONTACT OFFICERS AND BACKGROUND DOCUMENTS

4.1 Councillors with any questions arising out of this report should contact either of the following officers prior to the meeting.

Christine Parker, Head of the Audit Partnership

Telephone: 01304 872160 Email: christine.parker@folkestone-hythe.gov.uk

Lydia Morrison – Interim Corporate Services (s.151)

Telephone: 01303 853420 Email: Lydia.morrison@folkestone-hythe.gov.uk

4.2 The following background documents have been relied upon in the preparation of this report:

Internal Audit Annual Plan 2022-23 - Previously presented to and approved by the Audit & Governance Committee.

Internal Audit working papers - Held by the East Kent Audit Partnership.

Previous Audit Charter –presented and approved by the Audit & Governance Committee.

Attachments

Annex A – East Kent Audit Partnership Annual Report 2022-23

**Internal Audit Annual Report for
Folkestone & Hythe District Council 2022-23**

1. Introduction

The Public Sector Internal Audit Standard (PSIAS) defines internal audit as:

“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

A more detailed explanation, of the role and responsibilities of internal audit, is set out in the approved Audit Charter. The East Kent Audit Partnership (EKAP) aims to comply with the PSIAS, and to this end has produced evidence to the s.151 and Monitoring Officers to assist the Council’s review of the system of internal control in operation throughout the year.

This report is a summary of the year, a snapshot of the areas at the time they were reviewed and the results of follow up reviews to reflect the actions taken by management to address the control issues identified. The process that the EKAP adopts regarding following up the agreed recommendations will bring any outstanding high-risk areas to the attention of members via the regular reports, and through this annual report if there are any issues outstanding at the year-end.

2. Objectives

The majority of reviews undertaken by Internal Audit are designed to provide assurance on the operation of the Council’s internal control environment. At the end of an audit we provide recommendations and agree actions with management that will, if implemented, further enhance the environment of the controls in practice. Other work undertaken, includes the provision of specific advice and support to management to enhance the economy, efficiency and effectiveness of the services for which they are responsible. The annual audit plan is informed by special investigations and anti-fraud work carried out as well as the risk management framework of the Council.

A key aim of the EKAP is to deliver a professional, cost effective, efficient, internal audit function to the partner organisations. The EKAP aims to have an enabling role in raising the standards of services across the partners through its unique position in assessing the relative standards of services across the partners. The EKAP is also a key element of each councils’ anti-fraud and corruption system by acting as a deterrent to would be internal perpetrators.

The four partners are all committed to the principles and benefits of a shared internal audit service and have agreed a formal legal document setting out detailed arrangements. The statutory officers from each partner site (the s.151 Officer) together form the Client Officer Group and govern the partnership through annual meetings. The shared arrangement for EKAP also secures organisational

independence, which in turn assists EKAP in making conclusions about any resource limitations or ensuring there are no instances of restricted access.

3. Internal Audit Performance Against Targets

3.1 EKAP Resources

The EKAP has provided the service to the partners based on a FTE of 7.23.

3.2 Performance against Targets

The EKAP is committed to continuous improvement and has various measures to ensure the service can strive to improve. The performance measures and indicators for the year are shown in the balanced scorecard of performance measures at Appendix 3. The measures themselves were reviewed by the Client Officer Group at their annual meeting and no changes were made.

3.3 Internal Quality Assurance and Performance Management.

All internal audit reports are subject to review, either by the relevant EKAP Deputy Head of Audit or Head of the Audit Partnership; all of whom are Chartered Internal Auditors. In each case this includes a detailed examination of the working papers, action and review points, at each stage of report. The review process is recorded and evidenced within the working paper index and in a table at the end of each audit report. Detailed work instructions are documented within the Audit Manual. The Head of Audit Partnership collates performance data monthly and, together with the monitoring of the delivery of the agreed audit plan carried out by the relevant Deputy Head of Audit, regular meetings are held with the s.151 Officer. The minutes to these meetings provide additional evidence to the strategic management of the EKAP performance.

3.4 External Quality Assurance

The external auditors, Grant Thornton, conducted a review in February 2023 of the Internal Audit arrangements. They concluded that, where possible, they can place reliance on the work of the EKAP. See also 3.6.1 below.

3.5 Liaison between Internal Audit and External Audit

Liaison with the audit managers from Grant Thornton for the partner authorities and the EKAP is undertaken largely via email to ensure adequate audit coverage, to agree any complementary work and to avoid any duplication of effort. The EKAP has not met with any other review body during the year in its role as the Internal Auditor to Folkestone & Hythe District Council. Consequently, the assurance, which follows is based on EKAP reviews of the Council's services.

3.6 Compliance with Professional Standards

3.6.1 The EKAP self-assessment of the level of compliance against the Public Sector Internal Audit Standards shows that some actions are required to achieve full compliance which EKAP will continue to work towards. There is,

however, no appetite with the Client Officer Group to undertake an External Quality Assessment of the EKAP's level of compliance, relying on a review by the s.151 officers of the self-assessment. Consequently, the EKAP can only say that it partially conforms with PSIAS and this risk is noted in the AGS.

3.6.2 The internal audit activity adds value to the organisation (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management and control processes.

3.6.3 In 2022-23 EKAP as required by the standards has demonstrated that it achieved the Core Principles in three key ways. Firstly, by fulfilling the definition of Internal Auditing which is the statement of fundamental purpose, nature and scope of internal auditing. The definition is authoritative guidance for the internal audit profession (and is shown at paragraph 1 above). Secondly, by demonstrating that it has been effective in achieving its mission showing that it;-

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organization.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promotes organisational improvement.

And thirdly by complying with The Code of Ethics, which is a statement of principles and expectations governing behaviour of individuals and organisations in the conduct of internal auditing. The Rules of Conduct describe behaviour norms expected of internal auditors. These rules are an aid to interpreting the Core Principles into practical applications and are intended to guide the ethical conduct of internal auditors. Throughout 2022-23 the EKAP has been able to operate with strong independence, free from any undue influence of either officers or Members.

3.7 Financial Performance

Expenditure and recharges for the year are all in line with the Internal Audit cost centre hosted by Dover District Council. The EKAP was formed to provide a resilient, professional service and therefore achieving financial savings was not the main driver, despite this, considerable efficiencies have been gained through forming the partnership. The partnership councils have each received a refund of a share of £7,136.76 based on the number of days per partner in the overall plan. This has also reduced the cost per audit day. (See Appendix 3 for full details).

4. Overview of Work Done

The original audit plan for 2022-23 included a total of 29 projects. EKAP has communicated closely with the s.151 Officer, CLT and this Committee to ensure the projects undertaken continued to represent the best use of resources. As a result of this liaison some changes to the plan were agreed during the year. A few projects

(14) have therefore been pushed back in the overall strategic plan, to permit some higher risk projects (8) to come forward in the plan and to finalise (3) projects from the 2021-22 plan. The total number of projects completed was 23, with 2 being WIP at the year-end to be finalised in April.

Review of the Internal Control Environment

4.1 Risks

During 2022-23, 61 recommendations were made in the agreed final audit reports to Folkestone & Hythe District Council. These are analysed as being Critical, High, Medium or Low risk in the following table:

Risk Criticality	No. of Recommendations	Percentage
Critical	1	2%
High	20	33%
Medium	34	55%
Low	6	10%
TOTAL	61	100%

Naturally, more emphasis is placed on recommendations for improvement regarding critical and high risks. Any high priority recommendations where management has not made progress in implementing the agreed system improvement are brought to management and members' attention through Internal Audit's regular update reports. During 2022-23 the EKAP has not escalated any recommendations to the quarterly Audit & Governance Committee meetings. Across the year a total of 61 recommendations were agreed, and whilst 35% were in the Critical or High-Risk categories, none require further escalation at this time.

4.2 Assurances

Internal Audit applies one of four 'assurance opinions' to each review, please see Appendix 1 for the definitions. This provides a level of reliance that management can place on the system of internal control to deliver the goals and objectives covered in that particular review. The conclusions drawn are described as being "a snapshot in time" and the purpose of allocating an assurance level is so that risk is managed effectively, and control improvements can be planned. Consequently, where the assurance level is either 'no' or 'limited', or where high priority recommendations have been identified, a follow up progress review is undertaken and, where appropriate, the assurance level is revised.

The summary of Assurance Levels issued on the twenty-three pieces of work completed for Folkestone & Hythe District Council together with the finalisation of the three 2021-22 audits over the course of the year is as follows:

NB: the percentages shown are calculated on finalised reports with an assurance level

Assurance	No.	Percentage of Completed Reviews
Substantial	2	15%
Reasonable	4	31%
Limited	6	46%
No	1	8%
Not Applicable	10	-
Work in Progress at Year-End	2	-

NB: 'Not Applicable' is shown against special investigations or work commissioned by management that did not result in an assurance level.

Taken together 46% of the reviews account for substantial or reasonable assurance, and 54% of reviews placed either limited or no assurance to management on the system of internal control in operation at the time of the review.

For each recommendation, an implementation date is agreed with the Manager responsible for implementing it. Understandably, the follow up review is then timed to allow the service manager sufficient time to make progress in implementing the agreed actions against the agreed timescales. The results of any follow up reviews yet to be undertaken will be reported to the Committee at the appropriate time.

4.3 Progress Reports

In agreeing the final Internal Audit Report, management accepts responsibility to take action to resolve all the risks highlighted in that final report. The EKAP carries out a follow up/progress review at an appropriate time after finalising an agreed report to test whether an agreed action has in fact taken place and (for high risk) to test whether it has been effective in reducing risk.

As part of the follow up action, the recommendations under review are either:

- “closed” as they are successfully implemented, or
- “closed” as the recommendation is yet to be implemented but is on target, or
- (for medium or low risks only) “closed” as management has decided to tolerate the risk, or the circumstances have since changed, or
- (for critical or high risks only) escalated to the audit committee.

At the conclusion of the follow up review the overall assurance level is re-assessed.

The results for the follow up activity for 2022-23 are set out below.

Total Follow Ups undertaken 15	N/A	No Assurance	Limited Assurance	Reasonable Assurance	Substantial Assurance
Original Opinion	3	0	2	9	1
Revised Opinion	3	0	0	10	2

The reviews with an original limited assurance, together with the result of the follow up report, are shown in the following table:

Area Under Review	Original Assurance (Date to A&G Cttee)	Follow Up Result (Date to A&G Cttee)
Right To Buy	Limited (September 2020)	Reasonable (March 23)
CIL and s.106	Limited (September 2021)	Reasonable (July 22)

Consequently, the areas with fundamental issues of note arising from the audits which have been followed up 2022-23 have been resolved, or escalated to the Audit & Governance Committee, during the year (see also 5.2 for follow ups yet to be undertaken).

4.4 Special Investigations and Fraud Related Work

The prevention and detection of fraud and corruption is the responsibility of management however, the EKAP is aware of its own responsibility in this area and is alert to the risk of fraud and corruption. Consequently, the EKAP structures its work in such a way as to maximise the probability of detecting any instances of fraud. The EKAP will immediately report to the relevant officer any detected fraud or corruption identified during the course of its work; or any areas where such risks exist.

The EKAP is, from time to time, required to carry out special investigations, including suspected fraud and irregularity investigations and other special projects. Whilst some responsive assurance work was carried out during the year at the request of management, there were no fraud investigations conducted by the EKAP on behalf of Folkestone & Hythe District Council in 2022-23.

The EKAP is named in the Council's whistleblowing policy as a route to safely raise concerns regarding irregularities, for which EKAP manages the Hotline (24-hour answer machine service) 01304 872198.

The internal audit team will build on its data analytical skills and will continue to develop exploring the opportunity to discover fraud and error by comparing different data sets and matching data via the use of specialist auditing software.

4.5 Completion of Audit Plan

Appendix 2 shows the planned time for reviews undertaken, against actual time taken, follow up reviews, responsive assurance work and reviews resulting from any special investigations or management requests. 347.73 audit days were completed for Folkestone & Hythe District Council during 2022-23 which represents 99.35% plan completion.

The EKAP was formed in October 2007; it completes a rolling programme of work to cover a defined number of days each year. As at the 31st March each year there is undoubtedly some "work in progress" at each of the partner sites; some naturally being slightly ahead and some being slightly behind in any given year. The Balanced Scorecard at Appendix 3 provides the overview of plan completion across the partnership.

5. Overall Opinion 2022-23

It is a requirement of s.151 of the Local Government Act 1974 for the Council to maintain an 'effective' internal audit function, when forming my opinion on the Council's overall system of control, I need to have regard to the amount of work which we have undertaken upon which I am basing my opinion. Having completed 99.35% of the planned days, there is sufficient underpinning evidence to provide my opinion for 2022-23, as follows;

5.1 Corporate Governance

Corporate Governance is defined as being the structure of rules, practices and processes that direct and control the Council. To support the Head of Audit's Opinion the EKAP undertakes specific reviews (on a rotational basis) aligned to these processes as a part of the Audit Plan. During 2022-23 two such reviews of Whistleblowing and Counter Fraud arrangements have resulted in good levels of assurance. However, areas such as Officer Interests, Compliance with Contract Standing Orders and Contract Management have resulted in identified weaknesses of governance with agreed process and procedure not having been followed. The findings have been presented to management and action plans for improvement agreed. A full and engaged response from the Council has been activated and mandatory officer re-training in these areas for 2022-23 into 2023-24 is well underway. Consequently, this means the Head of Audit Partnership is satisfied the Council complies with Corporate Governance guidance and is fully committed to its principles and outcomes. Going forward staff will be supported to ensure all spending decisions are taken with full governance trails evidenced.

5.2 Internal Control

The EKAP has been commissioned to perform only one follow up, in 2022-23 neither of the two reviews remained Limited Assurance after follow up, and there were no recommendations that were originally assessed as critical or high risk, which remained a high priority and outstanding after follow up that required to be escalated to the Audit & Governance Committee during the year.

There have been many challenges during 2022-23 which have resulted in six partially Limited assurances and one No assurance review. The six reviews previously assessed as providing a Limited or No Assurance that are yet to be followed up are shown in the table below. The progress reports for these will be reported to the Committee at the meeting following completion of the follow up.

Area Under Review	Original Assurance (Date to A&G Cttee)	Progress Report Due
Housing Planned Maintenance Contracts	No (July 2022)	Quarter 1 2023-24
Officer Interests	Reasonable /Limited (September 2022)	Quarter 1 2023-24

Contract Management	Limited (December 2022)	Quarter 1 2023-24
Car Park Income	Substantial /Limited (December 2022)	Quarter 1 2023-24
Garden Waste- Recycling Management	Limited (December 2022)	Quarter 1 2023-24
Employee Benefits in Kind	Reasonable /Limited (July 2023)	Quarter 3 2023-24

Management has responded well to the agreed recommendations made by Internal Audit, worthy of note is the ongoing commitment shown to delivering the improvements. The governance issues mentioned in 5.1 regarding Contract Management and Compliance with CSO's, Declarations for Officers Interests prompted management to commission reviews from EKAP which have been completed and reported to the Committee. Indications are that improvements have already started to be made (such as delivering comprehensive training to staff). Independent assurance that the recommendations are fully implemented and are operating effectively and consistently will be reported to the Committee as each progress report is completed in 2023-24.

No system of control can provide absolute assurance, nor can Internal Audit give that assurance. This opinion is intended to provide assurance that there is an ongoing process for identifying, evaluating and managing the key risks.

The Head of Audit Partnership is satisfied the Council can place assurance on the aspects of the systems of control tested and in operation during 2022-23, and notes the areas where improvements are required are detailed by the Council in the Annual Governance Statement.

5.3 Risk Management

The Council keeps a corporate risk register. The Audit & Governance Committee are responsible for overseeing the risk management framework. Each quarter the Committee reviews the Corporate Risks and considers the report of the Director – Corporate Services. The next independent EKAP review of the Risk Management process is scheduled for the 2024-25 audit plan. The previous EKAP review concluded in 2019 with Substantial Assurance.

The Head of Audit Partnership is satisfied the Council's risk management arrangements are effective, noting that the External Auditors have recently made two presentational recommendations for management to consider to further comply with best practice.

Definition of Audit Assurance Statements & Recommendation Priorities

CiPFA Recommended Assurance Statement Definitions:

Substantial assurance - A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Reasonable assurance - There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

Limited assurance - Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

No assurance - Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

EKAP Priority of Recommendations Definitions:

Critical – A finding which significantly impacts upon a corporate risk or seriously impairs the organisation’s ability to achieve a corporate priority. Critical recommendations also relate to non-compliance with significant pieces of legislation which the organisation is required to adhere to and which could result in a financial penalty or prosecution. Such recommendations are likely to require immediate remedial action and are actions the Council must take without delay.

High – A finding which significantly impacts upon the operational service objective of the area under review. This would also normally be the priority assigned to recommendations relating to the (actual or potential) breach of a less prominent legal responsibility or significant internal policies; unless the consequences of non-compliance are severe. High priority recommendations are likely to require remedial action at the next available opportunity or as soon as is practical and are recommendations that the Council must take.

Medium – A finding where the Council is in (actual or potential) breach of - or where there is a weakness within - its own policies, procedures or internal control measures, but which does not directly impact upon a strategic risk, key priority, or the operational service objective of the area under review. Medium priority recommendations are likely to require remedial action within three to six months and are actions which the Council should take.

Low – A finding where there is little if any risk to the Council or the recommendation is of a business efficiency nature and is therefore advisory in nature. Low priority recommendations are suggested for implementation within six to nine months and generally describe actions the Council could take.

**Performance against the Agreed 2022-23
Folkestone & Hythe District Council Audit Plan**

Review	Original Planned Days	Revised Planned Days	Actual To 31/03/23	Status and Assurance level
FINANCIAL SYSTEMS:				
Bank Reconciliation	10	0	0	Deferred
Car Parking Income	10	16	16.56	Finalised – Reasonable/ Limited
Council Tax	10	11	11.34	Finalised - Substantial
Creditors	10	10	10.28	Finalised – Substantial/ Reasonable
Housing Benefit Admin & Assessment	10	0	0.28	Deferred
Housing Benefit Subsidy	10	0	0	Deferred
HOUSING SYSTEMS:				
Capital Programme Planned Repairs	10	0	0.57	Deferred
Housing Anti-Social Behaviour	10	0	0.38	Deferred
Improvement Grants & DFGs	10	0	0.34	Deferred
Tenants' Health & Safety	10	10	7.86	Work-in-Progress
Housing Contract Management	10	25	25.65	Finalised – No Assurance
New Build Capital Programme	10	0	0.73	Deferred
Responsive Repairs & Maintenance	10	10	0.19	Deferred
Right to Buy	10	10	10.19	Finalised - Limited
Tenancy & Estate Management	10	0	0.19	Deferred
Tenancy Counter Fraud	10	10	8.63	Work-in-Progress
Homelessness	15	28	28.91	Finalised – Reasonable
TECHNOLOGY / CYBER:				
ICT Review	10	0	0.14	Deferred
CORPORATE GOVERNANCE:				
Otterpool Governance	10	2	1.77	Deferred
Whistleblowing	5	4	4.13	Finalised – Not Applicable
COUNTER FRAUD:				
Fraud Resilience Arrangements	10	18	18.91	Finalised - Reasonable
PROCUREMENT & CONTRACTS:				
Contract Management / CSOs	10	10	10.82	Finalised - Limited
ASSET MANAGEMENT:				
Asset Management	10	0	0	Deferred
SERVICE LEVEL:				
Corporate Responsive Repairs	10	0	0	Deferred
Members Allowances	10	7	8.73	Finalised - Substantial
Planning Income	10	10	0	Deferred
Garden Waste / Recycling Management	10	21	21.51	Finalised - Limited

Review	Original Planned Days	Revised Planned Days	Actual To 31/03/23	Status and Assurance level
PEOPLE MANAGEMENT:				
Employee Benefits in Kind	10	10	10.47	Finalised – Reasonable/ Limited
Recruitment	10	0	0.07	Deferred
OTHER:				
Committee Reports & Meetings	10	11	12.01	Finalised
S151 Meetings & Support	10	13	14.07	Finalised
Corporate Advice / CMT	5	10	11.14	Finalised
Liaison with External Audit	1	1	1.46	Finalised
Audit Plan Prep & Meetings	10	10	11.09	Finalised
Follow Up Reviews	14	18	17.98	Finalised
FINALISATION OF 2021-22 AUDITS:				
COVID Grants	10	1	0.54	Finalised - Reasonable
Freedom of Information		3	2.89	Finalised – Not Applicable
Housing Data Integrity		5	5.50	Finalised – Not Applicable
RESPONSIVE ASSURANCE:				
Corporate Leak Investigation	0	3	3.05	Finalised – Not Applicable
Officers' Interests	0	11	11.46	Finalised – Reasonable/ Limited
Disposal of Logs / White Goods	0	7	6.85	Finalised – Not Applicable
Fraud Presentation	0	2	2.22	Finalised – Not Applicable
Print to Post	0	3	3.79	Finalised – Not Applicable
Secondment	0	30	26.32	Finalised – Not Applicable
Staffing Matter	0	5	6.45	Finalised – Not Applicable
Procurement Matters	0	5	12.46	Finalised – Not Applicable
Total	350	350	347.73	99.35%

EKAP Balanced Scorecard – 2022-23

<u>INTERNAL PROCESSES PERSPECTIVE :</u>	<u>2022-23 Actual</u>	<u>Target</u>	<u>FINANCIAL PERSPECTIVE:</u>	<u>2022-23 Actual</u>	<u>Original Budget</u>
	Quarter 4		Reported Annually		
Chargeable as % of available days	89%	90%	<ul style="list-style-type: none"> • Cost per Audit Day 	£373.33	£378.73
Chargeable days as % of planned days			<ul style="list-style-type: none"> • Direct Costs 	£488,433	£489,397
CCC	94.03%	100%	<ul style="list-style-type: none"> • + Indirect Costs (Recharges from Host) 	£10,530	£10,530
DDC	99.61%	100%	<ul style="list-style-type: none"> • - 'Unplanned Income' 	£6,172.75	Zero
TDC	103.49%	100%			
FHDC	99.35%	100%			
EKS	92.14%	100%			
Overall	98.89%	100%	<ul style="list-style-type: none"> • = Net EKAP cost (all Partners) 	£492,790.25	£499,927
Follow up/ Progress Reviews;					
<ul style="list-style-type: none"> • Issued 	53	-			
<ul style="list-style-type: none"> • Not yet due 	25	-			
<ul style="list-style-type: none"> • Now due for Follow Up 	28	-			
Compliance with the Public Sector Internal Audit Standards (PSIAS) (see Annual Report for more details)	Partial	Partial			

<u>CUSTOMER PERSPECTIVE:</u>	<u>2022-23 Actual</u>	<u>Target</u>	<u>INNOVATION & LEARNING PERSPECTIVE:</u>	<u>2022-23 Actual</u>	<u>Target</u>
	Quarter 4		Quarter 4		
Number of Satisfaction Questionnaires Issued;	68		Percentage of staff qualified to relevant technician level	61%	60%
Number of completed questionnaires received back;	42		Percentage of staff holding a relevant higher-level qualification	50%	50%
	= 61 %		Percentage of staff studying for a relevant professional qualification	0%	N/A
Percentage of Customers who felt that;			Number of days technical training per FTE	4.35	3.5
• Interviews were conducted in a professional manner	100%	100%	Percentage of staff meeting formal CPD requirements (post qualification)	50%	50%
• The audit report was 'Good' or better	96%	90%			
• That the audit was worthwhile.	98%	100%			

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This report will be made public on 12 July 2023



Report Number **AuG/23/07**

To: Audit and Governance Committee
Date: 20th July 2023
Status: Non-Executive Function
Director: Amandeep Khroud, Assistant Director – Governance, Law and Service Delivery

SUBJECT: ANNUAL GOVERNANCE STATEMENT 2022/23

SUMMARY: Under the Accounts and Audit (England) Regulations 2015, local authorities are required to produce an Annual Governance Statement. This report describes the process followed and seeks approval for the Annual Governance Statement for the year 2022/23.

REASONS FOR RECOMMENDATIONS:

The Committee is asked to agree the recommendations set out below because:-

- a) The Council is required to publish an Annual Governance Statement under the Accounts and Audit (England) Regulations 2015.
- b) In order to comply with best practice, those charged with governance should independently contribute to the maintenance of an effective programme of internal control.
- c) Those charged with governance are required to consider the statement independently of the financial statements.

RECOMMENDATIONS:

1. To receive and note report AuG/23/07.
2. To approve the draft Annual Governance Statement for 2022/23
3. To approve the council's corporate action plan outlined in Appendix 1 for 2023/24.

1. INTRODUCTION

1.1 The Annual Governance Statement is a corporate document and should involve a variety of people charged with delivering good governance across the authority. This includes:

- Chief Executive, Directors, Assistant Directors, Chief Officers and managers who are responsible for managing risks and the delivery of services.
- The Chief Financial Officer who is responsible for the accounting control systems and the preparation of the Statement of Accounts.
- The Monitoring Officer in meeting his/her statutory responsibilities.
- Members (e.g. the Leader and the Audit and Governance Committee).
- Others responsible for providing assurance, such as Internal Audit.

1.2 As a corporate document the Annual Governance Statement should be owned by all senior officers and members of the local authority. A successful statement will support the Council in achieving its statutory obligations and objectives, therefore satisfying the regulations.

2. LEGISLATIVE REQUIREMENTS

2.1 Regulation 3 of the Accounts and Audit (England) Regulations 2015, states:

Responsibility Internal Control

A relevant authority must ensure that it has a sound system of internal control which —

- (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;
- (b) ensures that the financial and operational management of the authority is effective; and
- (c) includes effective arrangements for the management of risk.

2.2 Regulation 6 of the Accounts and Audit (England) Regulations 2015 states:

Review of Internal Control System

(1) A relevant authority must, each financial year —

- (a) Conduct a review of the effectiveness of the system of internal control required by regulation 3; and
- (b) Prepare an annual governance statement;

(2) If the relevant authority referred to in paragraph (1) is a Category 1 authority, following the review, it must —

(a) Consider the findings of the review required by paragraph (1)(a) —

(i) by a committee; or

(ii) by members of the authority meeting as a whole; and

(b) Approve the annual governance statement prepared in accordance with paragraph (1)(b) by resolution of —

(i) a committee; or

(ii) members of the authority meeting as a whole.

2.3 The Annual Governance Statement, as required by 2(b) above, is appended to this report. The format of the statement follows the guidance given by CIPFA in its document [“delivering good governance” addendum.pdf](#).

2.4 The Council’s external auditor, Grant Thornton, reviews the assurance process annually as part of its work programme. The assurance process must show evidence that the Council has “effective corporate governance arrangements embedded within the authority”.

3. Annual Governance Statement 2022/23

3.1 A number of officers have been involved in the production of the Annual Governance Statement (AGS), and they have updated and reviewed the sections relevant to their service area. These officers include the Chief Executive, S151 Officer, the Monitoring Officer, the Chief Financial Services Officer and the Performance & Improvement Specialist. The Annual Governance Statement has also been reviewed by the Head of the East Kent Audit Partnership.

3.2 This year’s AGS includes reference to the following:

- The annual review of the Risk Management Strategy and Policy that included the establishment of a new Risk Management Group made up of Chief Officers & Assistant Directors who will meet on a quarterly basis to discuss emerging corporate risks, cumulative risk, and updates to risks already recorded on the Corporate Risk Register. (Section 3.17)
- The review and updating of the council’s Anti-Fraud & Corruption Framework by the S151 Officer and Monitoring Officer with training comprehensive training being provided to **all** staff on this matter during the year. (Section 3.3.4)
- The Housing Service preparations to meet revised consumer regulations that will be introduced by the Regulator of Social Housing from 2024. The service has also been improving internal governance processes, following a recommendation from internal audits, in 2022 detailed training on Financial Procedure Rules and Contract Standing Orders was provided to all staff working in the Asset Management

section and other departments where staff are responsible for procuring and supervising contracts. (Section 5.1)

- The agreement of Cabinet to the establishment of a Otterpool Park stewardship vehicle as a Limited Liability Partnership and as a subsidiary of Otterpool Park LLP with a further report to be presented to Cabinet in due course with more detail on the assets proposed to be transferred to the vehicle, the treatment of assets, and funding model supported in a detailed business plan. (Section 6.6)

3.3 As part of the review of the council's governance arrangements a number of areas for development have been identified, which are detailed in the action plan for 2023/24, which can be found in Appendix 1 of AGS.

3.4 The Action Plan for 2022/23 has been reviewed and progress against last year's actions is detailed in Appendix 2 of this document.

4. RISK MANAGEMENT ISSUES

4.1 The risk associated with this report are summarised as follows:

Perceived risk	Seriousness	Likelihood	Preventative Action
The Annual Governance Statement is prepared incorrectly	High	Low	The statement has been reviewed by all the council's Statutory Officers and the council's external auditors, Grant Thornton.
The Annual Governance Statement is prepared without involving members	High	Low	The Audit and Governance Committee's Terms of Reference includes responsibility for reviewing the Annual Governance Statement and the item will be considered at their meeting on 20 July 2023.
The action plan contained with the Annual Governance Statement is not carried out	Medium	Low	The action plan is reviewed and monitored regularly throughout the year and actions are regularly reported to the Audit and Governance Committee by the council's Monitoring Officer.

5. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

5.1 Legal Officer's Comments (AK)

The council's statutory duties to produce an Annual Governance Statement are set out in the body of the report.

5.2 Finance Officer's comments (OO)

The requirements for sound financial management/reporting are set out in the body of the report. The Annual Governance Statement sets out how the council complies with these requirements.

5.3 Equalities (GE)

No issues arising directly from the report. The council has sound governance arrangements to ensure it complies with all its statutory duties, as set out in the Equality Act 2010.

6. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting:

Gavin Edwards
Performance and Improvement Specialist
Tel: 01303 85 3436
Email: gavin.edwards@folkestone-hythe.gov.uk

Amandeep Khroud
Assistant Director – Governance, Law and Service Delivery
Tel: 01303 85 3253
Email: amandeep.khroud@folkestone-hythe.gov.uk

The following background documents have been relied upon in the preparation of this report:

CIPFA Delivering Good Governance in Local Governance: Framework.
CIPFA Delivering Good Governance in Local Governance: Framework. -
Addendum
CIPFA Delivering Good Governance in Local Governance: Guidance Note
for English Authorities

Appendices:

Appendix 1: Annual Governance Statement 2022/23

Appendix 2: Review of the 2022-23 Action Plan for improvement following review of effectiveness of governance arrangements.

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Appendix 1



Folkestone & Hythe District Council Annual Governance Statement 2022-23



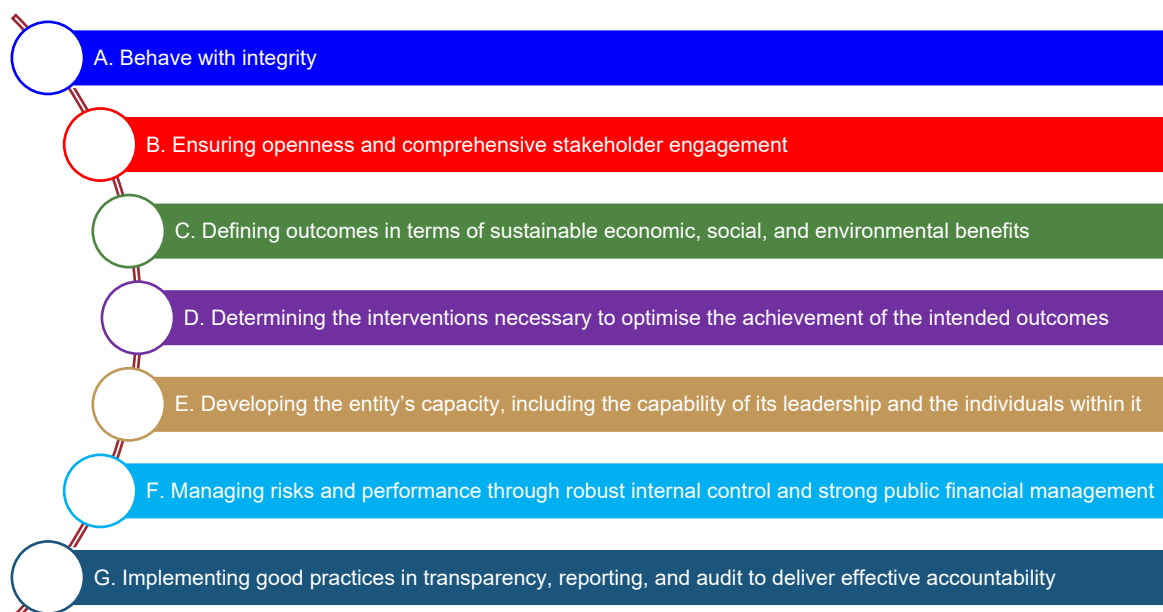
Annual Governance Statement 2022/23

1. SCOPE OF RESPONSIBILITY

- 1.1 Folkestone and Hythe District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and the management of risk.
- 1.3 The Council has a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA / SOLACE framework “Delivering Good Governance in Local Government.” A copy of the code is on our website or a copy can be obtained from the Council offices. This statement explains how the Council has complied with the code and also meets the requirements under the Accounts and Audit Regulations 2015 (SI 2015/184).

2. THE PRINCIPLES OF GOOD GOVERNANCE

- 2.1 The CIPFA/SOLACE Delivering Good Governance publication (2016) defines the various principles of good governance in the public sector. The document sets out seven core principles that underpin the governance framework and these are set out below:



3. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

- 3.1 The governance framework comprises the systems and processes, culture and values, by which the Council is directed and controlled. It also comprises the activities through which the Council accounts to, engages with and leads the community. The governance framework enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
- 3.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to:
- Identify and prioritise risks to the achievement of the Council’s aims and objectives.
 - Evaluate the likelihood and impact of those risks.
 - Manage those risks efficiently, effectively and economically.
- 3.3 The information provided in the governance framework includes matters to the year ending 31 March 2023, and up to the date of approval of the annual report and statement of accounts.

Table 1: Overview of the Council’s governance framework

<p><u>Cabinet</u></p> <p>Responsible for:</p> <ul style="list-style-type: none"> • Discharging executive functions in accordance with the policy framework and budget • Approving the authority’s risk management policy statement and strategy, and for reviewing the effectiveness of risk management • Approving the Anti-Fraud and Corruption Framework • Receiving regular performance updates to monitor achievement of key priorities, customer charter standards, performance indicators and spend against the planned budget. 		
<p style="text-align: center;"><u>Overview & Scrutiny</u></p> <p>Responsible for:</p> <ul style="list-style-type: none"> • Reviewing the work and decisions of the Cabinet, and all areas of the Council’s work. • Carrying out specific projects and investigations and considering matters or services provided by an outside organisation that could affect local residents. • Exercise the power to call in a decision of the cabinet or a cabinet member. 	<p style="text-align: center;"><u>Council</u></p> <p>Responsible for:</p> <ul style="list-style-type: none"> • Adopting the authority’s Constitution, including codes of conduct and approving the budget and policy framework. • Setting the budget and determining the level of Council Tax • All the authority’s non-executive functions. Functions which have not been delegated, remain the sole responsibility of the whole or full Council. 	<p style="text-align: center;"><u>Audit and Governance</u></p> <p>Responsible for:</p> <ul style="list-style-type: none"> • Promoting and maintaining the highest standards of conduct by Councillors. • Monitoring the operation of the Councillors’ Code of Conduct. • Advising, training or arranging to train Councillors on matters relating to the Code where necessary. • Considering and recommending to Council, when necessary, changes to the financial procedure rules and contract standing orders. • Providing independent assurance on the adequacy of the risk management framework.

<p>Finance and Performance Sub Committee</p> <p>Responsible for:</p> <ul style="list-style-type: none"> To scrutinise the Council's performance against KPIs and make recommendations as appropriate, to the Cabinet and / or Overview and Scrutiny Committee. To scrutinise the Council's financial monitoring data against budget and make recommendations as appropriate, to the Cabinet and / or Overview and Scrutiny Committee. 		
<p><u>Decision Making</u></p> <ul style="list-style-type: none"> All decisions are made in line with legislation and rules set out in Council's Constitution. Reports, decisions and minutes of committee meetings published on the Council's website. All committee meetings are held in public and webcast. Webcast recordings of previous meetings are available to the public for six months. 	<p><u>Risk Management</u></p> <ul style="list-style-type: none"> The Councils' Risk management Strategy ensures proper management of risks Risk registers identify both strategic and operational risks Regular updates on the management of risk are provided to the Corporate Leadership Team, Audit and Governance Committee and Cabinet. 	
<p><u>Statutory Chief Officers</u></p> <ul style="list-style-type: none"> Head of Paid Service: This role resides with the Chief Executive and has a duty to monitor and review the operations of the Constitution to ensure its aims and principles are given full effect. The Authority keeps the appropriateness of the Constitution under review. Chief Finance Officer (Section 151): The Director for Corporate Services holds the role of Chief Finance Offer, a fundamental building block of good corporate governance. The two critical aspects of the role are stewardship and probity in the use of resources; and performance, extracting the most value from the use of those resources. Monitoring Officer: The Assistant Director for Governance & Law holds the role of Monitoring Officer and is responsible for: <ul style="list-style-type: none"> Maintaining and interpreting the Councils constitution, ensuring lawfulness and fairness of decision-making. Providing advice to all councillors, on the scope of powers and authority to take decisions; maladministration; financial impropriety; probity; and Budget and Policy Framework issues. Conducting investigations, or arrange for investigations to be conducted, into complaints concerning alleged breaches of the councillor's Code of Conduct. 		

In October 2021, the following changes were introduced to provide more robust scrutiny and greater Member involvement earlier in strategy and policy development, and in decision making by:

- Focusing meetings of the Overview and Scrutiny Committee on critical Council activities.
- Creating a dedicated finance and performance sub-group to meet quarterly.

- Developing a prioritised committee work plan to include about 12 clearly scoped topics by OSC Members, allowing for detailed consideration of the most significant matters facing the Council and considering no more than two of those topics per meeting, in general.
- Ensuring work plan topics have clear lines of enquiry, questions, and to draw on external expertise as necessary.
- Members leading the items at Scrutiny meetings, with relevant portfolio holders in attendance.
- Introducing an established Cabinet and Overview and Scrutiny Protocol to clarify relationships between the two and to help ensure the smooth conduct of Scrutiny work, which was adopted by both groups in October 2020.

In February 2022, Full Council received a progress update on the work undertaken to review the governance arrangements of the Council (report ref: A/21/22). The report highlighted the work achieved so far against a set of goals agreed by members for governance change – Inclusiveness, Representation, Accountability, Effective Scrutiny, Efficiency and Transparency. A decision on any changes to the Council’s governance arrangements was then considered at Full Council in May 2022, and members decided not to make changes to the current governance arrangements (report ref A/22/07).

In addition to the improvements implemented with the Overview & Scrutiny Committee, it should be noted that:

- In December 2019, members of Full Council approved a recommendation made by the Audit and Governance committee to appoint an independent member to that committee in line with the updated 2018 CIPFA Practical Guidance for Local Authorities and Police (Report ref: A/19/20). The guidance recognises that the recruitment of independent members is undertaken to bring additional knowledge and expertise to the committee, reinforce political neutrality as well as maintain continuity of committee membership where it is affected by the electoral cycle. The position for an independent member of the Audit and Governance committee was advertised during the year and was successfully appointed at a Special meeting of the Audit and Governance Committee held on the 24 November 2020.
- Since 1st February 2020 changes have also been made to the membership of Cabinet which now includes a Councillor from the Green party and a Councillor from the Liberal Democrat party. They joined two councillors from the Independent party, and five conservative members to form the executive under the leadership of the Conservative party. The political composition of executive has continued to remain the same during the 2022/23 year.

Strategic Planning

















3.4 The Council identifies and communicates its aims and ambitions for the district through its Corporate Plan. The latest plan covers the period 2021 to 2030, and was agreed by both Cabinet and Council in February 2021 (report ref: A/20/10). Within this period in the short term there is a focus on COVID recovery, and the Plan will be reviewed in 2024.

The Corporate Plan sets out the Council’s vision for improving the lives for all those who live and work in the district for the next nine years.

The vision for Folkestone & Hythe is ‘**Creating Tomorrow Together**’.

To help achieve the vision for the district, the Council has four service ambitions and six guiding principles set out below:

Creating Tomorrow Together: Corporate Plan 2021-30

<p>Service ambition 1: Positive community leadership</p> <p>Priorities in the next three years</p> <ul style="list-style-type: none">  Improve physical and mental health & wellbeing  Safer communities  Supporting & empowering our communities 	<p>Service ambition 2: A thriving environment</p> <p>Priorities in the next three years</p> <ul style="list-style-type: none">  Ensure an excellent environment for everyone  Grow the circular economy & reduce waste  Increase our resilience to climate change 	<p>Service ambition 3: A vibrant economy</p> <p>Priorities in the next three years</p> <ul style="list-style-type: none">  Reinvigorate the high streets  Support a vibrant & diverse business community  Help people access jobs & opportunity  Grow the skills we need for the future 	<p>Service ambition 4: Quality homes and infrastructure</p> <p>Priorities in the next three years</p> <ul style="list-style-type: none">  Improve outcomes & support for homeless people  Deliver sustainable, affordable housing  Deliver a safe, accountable housing service  Digital inclusion & connectivity  Deliver a sustainable new development at Otterpool Park 			
<p>In everything we do we will follow these guiding principles:</p>						
<p>Sustainable recovery We will do all we can to ensure a strong recovery for the district from the effects of COVID.</p>	<p>Locally distinctive We will protect the special distinctive and diverse nature of our district - working with our key partners to enhance it.</p>	<p>Greener Folkestone & Hythe We will encourage and create a more sustainable district consuming fewer natural resources.</p>	<p>Transparent, stable, accountable and accessible We will be financially sustainable and communicate effectively with our communities in an accessible way.</p>	<p>Working effectively with partners We will engage with partners to understand the vital role they play and work collaboratively with them to ensure the best outcomes for our residents.</p>	<p>Continuous improvement We will embed a culture of continuous improvement, seeking feedback and being innovative and creative to find new ways to deliver services.</p>	

3.5 For each service ambition set out above, the Council has committed to a number of priorities within the Corporate Plan that will be delivered over the next three years.

3.6 In order to support the delivery of the corporate plan priorities illustrated above, work has been undertaken during the year with directors, chief officers and their service leads to develop a Corporate Action Plan that documents a series of high level actions under each of the four corporate service ambitions that the Council will work towards achieving during the three year period to 2024. An annual update on the progress against the agreed actions within the plan was presented to Cabinet on 20th October 2022 (Report ref: C/22/52)

- 3.6 Elected Members of the Council are ultimately responsible for the delivery of the Council's corporate objectives. The Council has strong communication channels between Members and officers. Meetings are regularly held between officers and Cabinet Members to discuss specific issues relating to their individual portfolios and the progression towards defined corporate objectives.
- 3.7 Effective communication, both within departments and across the Council is continually supported through the wider management team, consisting of the Chief Executive, Directors, Chief Officers and Service Managers to help ensure consistent delivery of corporate priorities and messages.
- 3.8 On an annual basis, managers are required to develop, and keep under review, a departmental service plan setting out their priorities for the coming year. Service plans form an integral part of the overall corporate planning process, linking the Council's strategic aspiration (Corporate Plan) to team performance (service plans) and individual performance (performance reviews), in order to effectively manage resources and deliver high quality services for our residents.

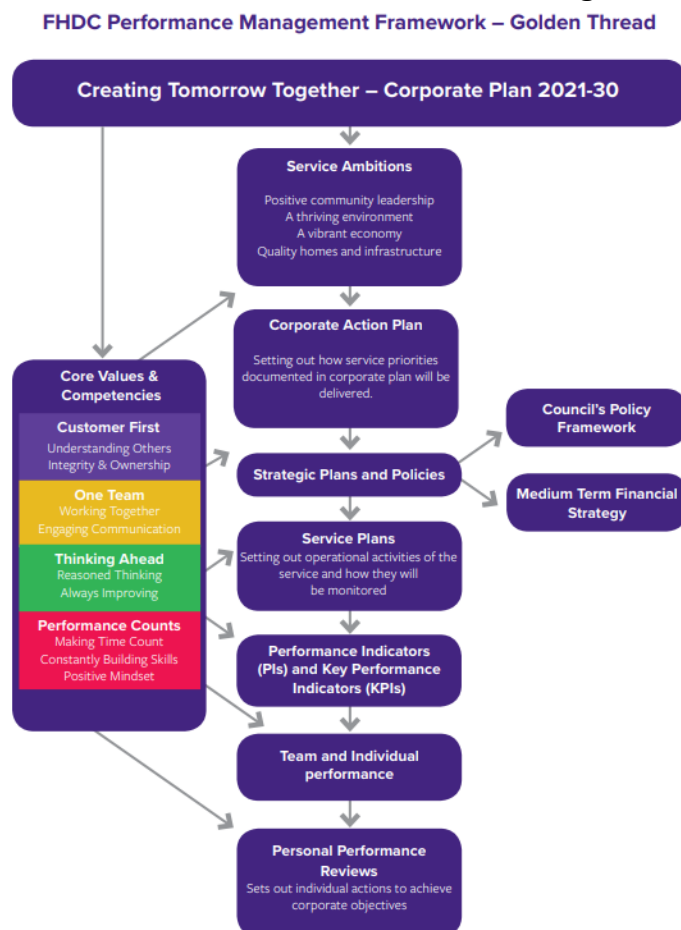
Transparency

- 3.9 In 2015, the Government introduced the Local Government Transparency Code. The Code is designed to ensure data is made more readily available by local authorities to increase democratic accountability and make it easier for local people to contribute to the local decision making process and help shape public services.
- 3.10 Folkestone and Hythe District Council as a public funded organisation is fully committed to principles of openness and accountability and has clearly articulated this as a Guiding Principle in its Corporate Plan. In line with the Transparency Code, the Council continues to publish on its website a series of data sets and information including;
- Senior Staff Salaries
 - Organisational Structure Chart
 - Payment to suppliers (over the value £250)
 - Purchase Orders (£5,000 and over)
 - Pay Multiples - The ratio between the earnings of the highest paid employee and the median earnings figure of our employees.
 - Grants to Voluntary, Community and Social Enterprise Organisations
 - Parking Accounts
 - Local Authority Land Assets
 - Fraud - Information relating to the work we do countering fraud
 - Trade Union Facility Time

Performance Management

- 3.11 The Council has an established Performance Management Framework (PMF) in place to keep the Council on track and focused on delivery of its key priorities, by providing elected members, managers and staff with the information and tools they need to deliver high-quality and high-performing services which help to achieve good outcomes for residents.
- 3.12 The Performance Management Framework demonstrates how the Council’s corporate vision and objectives are cascaded down through the organisation in what is known as the ‘Golden Thread’ (See diagram 1). The objectives defined with the corporate plan and our core values help drive the development of strategic policy, operational service plans and the performance of both teams and individual members of staff. This matter is kept under review and a revised version of framework was considered by the Overview & Scrutiny Committee in June 2021 and approved by Cabinet in July 2021 (Report ref: C/21/25).

Diagram 1: FHDC Golden Thread of Performance Management:



- 3.13 The Council has recently enhanced its performance reporting procedures to Members. The new Finance & Performance Sub Committee and Cabinet receive Quarterly Performance Reports enabling them, along with other

Members of the Council and the public to scrutinise the performance of the Council against strategic deliverables and key indicators in accordance with the approved Corporate Plan. All performance reports presented are made publically available through the Council's website.

- 3.14 A key component of performance management for the Council is the overall quality of the service provided to the customer. The Customer Access Strategy takes into consideration customers' feedback to develop and implement plans to improve the way in which the Council delivers and receives day to day information about the services it provides. The strategy also sets out the Council's principles in delivering customer service for its residents.

In October 2022, the Council successfully re-applied for the Customer Service Excellence (CSE) accreditation. The accreditation is a Government standard developed to offer a practical tool for driving customer-focused change within organisations. The independent assessor was very impressed with the Council's ongoing commitment to customer service and awarded 16 compliance pluses for showing innovative practise, delivering a service that is over and above what the customer could normally expect and showing practise that could be usefully shared with other organisations. This is the highest number of compliance pluses we have been awarded in one go and continues to be great recognition for the service we provide.

Risk

- 3.15 The Council's Risk Management Strategy (Adopted by Cabinet in March 2022, report ref: C/21/95) is reviewed on annual basis to reflect any changes in the Council's assessment of risk management matters. The strategy sets out the approach that has been adopted for identifying, evaluating, managing and recording risks to which the council is exposed.
- 3.16 In preparing the Council's Corporate Risk Register a detailed review of the risks is undertaken by Directors and Chief Officers, with consideration given to the emergence of potential new risks alongside those previously identified as part of the business planning process. This is a dynamic process with progress made against any required action in relation to the risks being reported to the Council's Corporate Leadership Team on a regular basis for review and action.
- 3.17 The Audit and Governance Committee are responsible for considering the effectiveness of the authority's risk management arrangements, and to seek assurance that action is being taken to mitigate those risks identified. The Corporate Risk Register is presented regularly to the Audit and Governance Committee. In addition the committee reviews the Council's Risk Policy and Strategy and Corporate Risk Register annually, ahead of these documents being presented to Cabinet for adoption. The latest edition of the Risk Policy and Strategy and Corporate Risk Register was considered by the Audit & Governance Committee on 15th March 2023 and then approved by Cabinet on

22nd March 2023 (Report ref: C/22/99). The latest version of the policy adopted a notable change in the monitoring of corporate risk:

The establishment of a Risk Management Group (RMG) that held its inaugural meeting in February 2023. The RMG is made up of Chief Officers & Assistant Directors who will meet on a quarterly basis to discuss emerging corporate risks and updates to risks already recorded on the Corporate Risk Register. The proposed amendments and additions will then be sent to the Corporate Leadership Team for their review.

3.18 Diagram 2 below provides an overview of the latest governance and reporting arrangements in place for both the Risk Management Policy and Strategy and the Corporate Risk Register to ensure risk remains at the forefront of the Council’s operations:

Diagram 2: Reporting Arrangements for Risk Management

Risk Policy and Strategy	Corporate Risk Register	Operational Risk Registers	Partnership Risk Registers	Project Risk Registers
<ul style="list-style-type: none"> •Annual Review by CLT •Annual Review by Cabinet •Annual Review by Audit & Governance Committee 	<ul style="list-style-type: none"> •Quarterly review by CLT and RMG •Quarterly Review by Audit & Governance Committee •Annual Review by Cabinet •Emerging/Changing risks highlighted by Directors and Chief Officers 	<ul style="list-style-type: none"> •Ongoing: Maintained and reviewed by Managers, Chief Officers and Directors •Key Risks discussed at Portfolio Holder meetings. 	<ul style="list-style-type: none"> •Ongoing – maintained and reviewed regularly by Partnership lead •Key risks discussed at Partnership Meetings •Annual review by CLT •Inclusion where relevant in Corporate Risk Register •Project Risk 	<ul style="list-style-type: none"> •Ongoing – maintained and reviewed regularly by Project Managers and CO / ADs •Key risks discussed at Portfolio Holder/Project Sponsor Meetings •Annual review by CLT of escalated risks •Annual review of key project risks by Cabinet and Audit & Governance Committee •Inclusion where relevant in Corporate Risk Register

Finance

3.19 Section 151 of the Local Government Act 1972 requires a council to ensure that one of their officers has responsibility for the proper administration of its financial affairs. During 2022/23 this responsibility was held by the Director of

Corporate Services. Directors, Chief Officers and Service Managers are responsible for the financial management of their service areas within the Council, which includes accurate forecasting and the effective monitoring of financial performance against budget considered throughout the year.

- 3.20 The Council's financial management arrangements conform to the governance requirements of CIPFA's Statement on the Role of the Chief Financial Officer in Local Government as set out in '*Delivering Good Governance in Local Government*'.
- 3.21 The Medium-Term Financial Strategy (MTFS) is the Council's key financial planning document which puts the financial perspective on the Council's Corporate Plan priorities. The MTFS was updated and approved by Council in November 2022 and expresses the aims and objectives of various plans and strategies in financial terms over a four-year period ending 31st March 2026. The MTFS is a key element of sound corporate governance and financial management which is reviewed and agreed by Members on a regular basis.
- 3.22 In addition, the Finance & Performance Subcommittee recommended to Cabinet the adoption of the Treasury Management Strategy for the 2022/23 financial year at its meeting on 18th January 2022; Cabinet endorsed this at its subsequent meeting (report ref: C/20/64). A mid-year Treasury Management monitoring report was then presented to the Finance & Performance Sub Committee at its meeting on 18th January 2022 which provided an update on the Council's treasury management activities that had taken place during the year against the agreed strategy and an update on the treasury management indicators.
- 3.23 Full Council consider annually the Investment Strategy and Capital Strategy by 31 March for the financial year ahead. These strategies consider the Council's service and commercial investments and capital expenditure, financing & treasury management, as well as Prudential Indicators. Full Council adopted the relevant strategies for 2022/23 on 23 February 2022 (report references: C/21/54 & C/21/71).
- 3.24 Regular budget monitoring took place in 2022/23 in order to manage the Council's net revenue budget. Regular meetings were held between officers and the Cabinet Portfolio Holders to discuss any specific budget issues and budget monitoring reports were presented to the Finance & Performance Sub Committee and Cabinet on a quarterly basis. It was appropriate to continue to have an additional focus on the Council's revenue budget monitoring during 2022/23 due to the unprecedented impacts of the pandemic on Council finances.
- 3.25 The level of reserve balances is reviewed annually in line with the budget setting process and is reported to Finance & Performance Sub Committee and Cabinet as part of the quarterly budget monitoring reports. The level of reserves currently held has been endorsed and reported by the S151 Officer as adequate and in line with the Council's Reserves Policy.

- 3.26 During the 2022/23 year the senior team was made aware of issues within the Housing service area regarding contract management and potential breaches of the Contract Standing Orders. These are now well progressed and anticipated to be concluded within the 2022/23 year. The Section 151 Officer has also commissioned an Internal Audit wider in scope exploring contract management across the Council to gain assurance that the issues identified are not prevalent. Further appropriate reports will be made to the Audit and Governance Committee, and appropriate reference has been made here in the 2022/23 Annual Governance Statement.

Partnership and Joint-working

- 3.27 The Council is continuously looking at innovative solutions to deliver its range of services, including the processes associated with improving service delivery, the ongoing requirements to address the demand for and scale of services, and any associated income opportunities. This approach to service design ensures consideration is given to partnership working with other public bodies and local agencies, including identification of shared service opportunities where appropriate.
- 3.28 The Partnership Policy sets out the Council's vision and scope for partnership working; providing clarity of the types of partnership the Council is involved with and guidance to assist in making decisions regarding setting up or joining partnerships. All partnerships entered into by the Council over the value of £5,000 are recorded within the Grants & Partnerships Register and published on the Council's website for public transparency. The Partnership Policy underwent review during the year with minor administrative changes being made to the policy that were agreed with the portfolio holder. The updated policy has now been published on the Council's website, staff intranet and communicated with all service leads.

Internal and External Audit

Internal Audit

- 3.29 The internal audit function for the Council is performed by the East Kent Audit Partnership (EKAP), which provides internal audit services to the councils of Canterbury, Dover, Folkestone and Thanet. As a result of this collaborative approach the partnership is able to provide a mechanism for promulgating best practice to the East Kent authorities that use its services. The East Kent Audit Partnership Internal Audit Team reports to the S151 Officer, the Director – Corporate Services. They operate under a Charter, which defines their relationship with officers, and the Audit and Governance Committee. Through their audit assurance work, internal audit provides an opinion on the effectiveness of the systems of internal control. As part of the annual review of governance arrangements and in particular the system of internal control, the Council undertakes an annual review of the effectiveness of the system of internal audit.

3.30 Internal Audit has responsibility to:

- Report on the level of assurance in respect of the Council's internal control systems; and
- Provide an overall independent annual Opinion from the Head of the Audit Partnership highlighting areas of concern. This is compiled from the Internal Audit work programme and a review of the Council's risk management and Corporate Governance arrangements.

3.31 The overall opinion of the System of Internal Controls in operation throughout 2022-23 based on the work of the East Kent Audit Partnership is presented in their annual report to the Governance and Audit Committee in July 2023:

- The internal auditors are independent to the management of the Council and have direct access to the Chair of the Governance and Audit if required. They provide a regular update to the Committee at each of the quarterly meetings and may attend any special meetings that may be convened during the year.
- As at 31 March 2023 the Internal Auditors completed 347.73 days of review equating to 99.35% of planned completion.
- The EKAP undertakes a regular schedule of follow up audits to ensure that management have implemented the action plans arising from each audit. Members can see full details within the Internal Audit Annual Report 2022-23.
- In March 2020 EKAP considered the Public Sector Internal Audit Standards (PSIAS) Checklist for compliance. The results of this self-assessment showed that internal audit is currently working towards full compliance and has agreed an action plan to achieve this. The lack of an External Quality Assessment (EQA) against the PSIAS is hereby disclosed as non-conformance in this Annual Governance Statement. The four S151 Officers acting as the EKAP Client Officer Group continue to be content to rely on the self-assessment process for the PSIAS and not commission an EQA.
- As part of EKAP's quality monitoring arrangements Members should be aware that following the completion of each audit, a satisfaction questionnaire is completed by the managers of the service that has been audited enabling the officers involved to comment on the conduct and outcome of the audit. This information is used, in part, to inform the self-assessment and continuous improvement.

External Audit

3.32 The external audit work of the Council is undertaken by Grant Thornton UK LLP. The main duties are governed by section 15 of the Local Government Finance Act 1982, and the Local Audit and Accountability Act 2015 section 4.

- 3.33 Each year the Council receives a report from its external auditor on the quality of its financial and management administrative arrangements. This is considered both by Cabinet and the Audit and Governance Committee.
- 3.34 The Council in the final stages of concluding its 2020/21 and 2021/22 accounts and audit process and this culminated in the final external audit opinion being presented to the Council at the Audit and Governance Committee meeting in March 2023. It is confirmed that the Council has received an unqualified audit opinion for both years and final details and sign off arrangements are being concluded.

Counter Fraud Arrangements

- 3.34 The Council is firmly opposed to any form of fraud and corruption and will take prompt and decisive action to deal equally with perpetrators from inside and outside the Council. To ensure the highest standards of conduct are upheld, the Council has an established Anti-Fraud and Anti-Corruption Framework in place that is designed to:

- encourage fraud deterrence and prevention;
- raise awareness of fraud and corruption and promote their detection;
- perform investigations and facilitate recovery in a prompt, thorough and professional manner; and
- invoke disciplinary proceedings and further action as appropriate.

The Anti-Fraud & Anti-Corruption Framework is formed of five documents, including the Anti-Fraud & Anti-Corruption Strategy, the Fraud Response Plan, the Whistle Blowing Protocol, the Anti-Money Laundering Policy and the Anti Bribery Policy. This framework has now been reviewed and updated by the S151 Officer and Monitoring Officer in 2022/23. Furthermore, the comprehensive training on Anti-Fraud and Corruption was provided to all staff on 24 January 2023 with an additional session for Grounds Maintenance staff held on 7th March 2023.

- 3.35 The responsibility for the prevention of fraud and corruption lies with management who ensure that adequate controls, including policies and procedures, are in place to prevent and detect fraud and corruption. The Council has developed systems and procedures that incorporate effective and efficient internal controls, and management ensure that controls minimise risk to an appropriate level. Controls are regularly reviewed to ensure they remain appropriate and effective. The internal and external auditors independently monitor the existence, effectiveness and appropriateness of these controls.
- 3.36 The Chief Finance Officer (Section 151 Officer) is responsible for the proper administration of the authority's financial affairs. Under Section 114 of the Local Government Finance Act 1988, the Chief Finance Officer is required to report to the full Council, Cabinet and the external auditor if the Council or one of its

officers:

- has made, or about to make, a decision which involves incurring unlawful expenditure;
- has taken, or about to take, an unlawful action which has resulted or would result in a loss or deficiency to the authority; and
- is about to make an unlawful entry in the authority's accounts.

3.37 The Assistant Director for Governance & Law is the 'Monitoring Officer' for the Council. Under 5(2) of the Local Government and Housing Act 1989, the Monitoring Officer is required to report to Cabinet and Council where it appears to him/her that the Cabinet or Council and/or officers appointed by them:

- has made or is about to make a decision which contravenes any enactment, or rule of law; and
- has made or is about to make a decision that would give rise to maladministration or injustice as referred to in Part III of the Local Government Act 1974.

4 REVIEW OF EFFECTIVENESS

4.1 The Council has responsibility for conducting, at least annually, a review of effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the Council who have responsibility for the development and maintenance of the governance environment, the Head of East Kent Audit Partnership's annual report and also by comments made by the external auditors and other review agencies and inspectorates.

4.2 In maintaining and reviewing the effectiveness of the governance framework, the key elements are as follows:

- The Audit and Governance Committee, which has responsibility to provide independent assurance on the adequacy of the risk management framework and the associated control environment. The committee provides independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk. It also oversees the financial reporting process and oversees the work of the East Kent Audit Partnership.
- The Council's internal management processes, such as performance monitoring and reporting; budget monitoring and reporting; the staff performance appraisal framework and monitoring of policies, such as the corporate complaints and health and safety policies.
- The opinion on the overall adequacy and effectiveness of the Council's overall control environment from the Head of Internal Audit.

- An annual self-assessment and management assurance statement signed by Directors and senior managers, confirming that the Code of Conduct, Financial Regulations and other corporate governance processes have operated as intended within their directorates throughout the year.
- Reviews carried out by Internal Audit, External Audit and other review bodies which generate reports commenting on the effectiveness of the systems of internal control employed by the Council.
- The Council continues to seek external specialist advice when appropriate on some of our large projects, including Otterpool Park and other major council schemes.

5 HOUSING SERVICE

- 5.1 In 2022 the Housing Service has been preparing to meet the revised consumer regulations that the Regulator of Social Housing will be introducing and monitoring from 2024. The Housing Service reported compliance on the six key Health & Safety areas of; fire, water, electrical safety, asbestos and lifts. We continue to monitor an extensive set of KPIs, reported monthly to the Housing Leadership Team. Data is scrutinised quarterly by the Corporate Leadership Team (CLT) and the Strategic Tenants Advisory Panel (STAP), and published on the Council's website, so that we report back to our council tenants on performance of the housing service.

The Housing Service is embedding an internal governance process focused on continuous service improvement. As part of this, and as a recommendation from internal audits, in 2022 we provided detailed training on Financial Procedure Rules and Contract Standing Orders to all staff working in the Asset Management section and other departments where staff are responsible for procuring and supervising contracts.

The team has responded to new legislation, i.e. the Charter for Social Housing Residents (White paper), by introducing a Tenant Engagement Strategy which included setting up the STAP as the senior level tenant-led scrutiny panel that contributes to the way the Council monitors and delivers service improvement. In response to changes in the Regulator of Social Housing consumer standards, we are now using the new Tenant Satisfaction Measures to undertake surveying of tenants to determine levels of satisfaction with various aspects of the housing service. We will also be carrying out more perception and transactional surveys, and using the feedback from tenants to inform the continuous improvement plan. The Council's housing service is also now continuing to improve benchmarking capabilities through HouseMark (industry leaders for the housing sector), to ensure the provision of a good, cost-effective and financially viable services. This will include a focus on health & safety, keeping tenants safe and secure in their homes, and continuing to invest in new energy efficient measures, retrofitting council homes in the coming year.

6 OTTERPOOL PARK LLP

- 6.1 The LLP was established on 27 May 2020. The LLP will act as master developer for Otterpool Park. As such, it is envisaged that the LLP will secure planning permissions and put in place infrastructure in order that parcels of land can be sold to housebuilders. This will be the main focus of activity and generator of value, i.e. income to the LLP and in due course financial return to the council. The main documents and mechanisms governing the relationship between the Council and the LLP are:
- The Members' (or Owners') Agreement approved on 27 May 2020 and updated on 20 October 2021 (Cabinet Report ref C/21/41).
 - A single overarching Strategic Land Agreement;
 - Related agreements including the Phased Delivery Strategy governing the transfer of land from the Council to the LLP (or other parties) pursuant to the Strategic Land Agreement;
 - Legal instruments in relation to loans / members' equity;
 - Loan agreements in relation to funds provided to the LLP by the Council as debt; and
 - The Business Plan agreed with the Council (it is a requirement of the Members' (or Owners') Agreement that every 5 years, the LLP submits its proposed business plan to the Council for approval).
- 6.2 Regular meetings (at least quarterly) between the Council and the LLP Board are held and provide opportunity for dialogue and assessment of progress against the approved Business Plan, including detailed consideration of financial matters and project risks. Attendees at these meetings are the nominated representatives, which include elected Members and the statutory officers of the Council as agreed by Cabinet (see Minute 6 of Cabinet meeting 27 May 2020 report ref C/20/02).
- 6.3 An Assurance Framework has been established by the Council's Statutory Officers, which will support the delivery of the Otterpool Park LLP business plan. The framework is designed to guide the consideration of corporate governance and matters arising and will be reported to Members as required. The framework is scheduled for review on a 6 monthly basis to ensure it is aligned with the Otterpool Park LLP business plan and Council decisions.
- 6.4 Cabinet considered the first Business Plan of the LLP on 20 January 2021. The Business Plan included a draft vision document which set out the aspirations of the LLP for the development and which captures the essence of the scheme. The vision document drew on a range of Council documents, primarily the Charter for Otterpool Park (report ref C/17/49). In November 2019, Full Council determined to *"To make available an additional one*

hundred million pounds to be drawn down over a period of up to five years to enable the Otterpool Park project to proceed.”, (report ref A/19/17).

- 6.5 The first annual update on the Business Plan was approved by Cabinet in January 2022 (Report ref C/21/70). A presentation on an early draft of the second annual update to the Business Plan was considered by Overview and Scrutiny Committee on 8 November 2022. Subsequent to this Cabinet received an update on 19 April 2023 (Report ref C/22/109) which and noted ongoing due diligence and a financial assessment of the updated Business Plan (with input from external specialist advisors). The outcome of this work will be a robust assessment which will support Members’ decision making on this matter. It is intended that a report will be further considered by OSC, Cabinet and Council as soon as practicable.
- 6.6 In line with the terms of the Members’ Agreement, at its meeting of 20 October 2022, Cabinet agreed to the establishment of a stewardship vehicle as a Limited Liability Partnership and as a subsidiary of Otterpool Park LLP (Report ref C/22/46). It was noted that a further report will be presented to Cabinet with more detail on the assets proposed to be transferred to the vehicle, the treatment of assets, and funding model supported in a detailed business plan.

7. CONCLUSION

- 7.1 In line with the Council’s responsibilities for its internal control and overall governance environment (paragraph 1.1), the conclusion to the annual review process for the year ended 31 March 2023 and up to the date of approval of the Statement of Accounts is that the arrangements in place are considered to be fit for purpose and in accordance with the Council’s governance framework, with no significant areas of the framework requiring attention.

During the year 2021/22 year, the senior team was made aware of potential breaches of the Council’s Financial Procedure Rules and Contract Standing Orders. These matters were highlighted, largely, through regular routine checks made by the procurement and finance teams. The potential breaches were thoroughly investigated, and the findings were reported formally to the Audit and Governance committee in December 2022. As a result of the issues identified during the investigations, a Governance action log has prepared by the three statutory officers in order to address the weaknesses identified and to strengthen Governance procedures and processes.

- 7.2 Set out in Appendix 1 is the current action plan outlining the steps the Council proposes to take over the coming year to further enhance our governance arrangements. This action plan will be kept under review through the year and updated as appropriate.

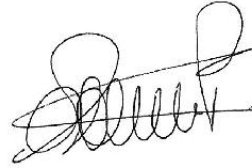
7.3 The findings of the annual review of the governance framework will be reported to Members of the Audit and Governance Committee on 20th July 2023.

Signed:

Handwritten signature of Tim Prater in black ink.

Cllr Tim Prater
Deputy Leader of the Council and
Cabinet Member for Finance and
Governance

Signed:

Handwritten signature of Dr Susan Priest in black ink.

Dr Susan Priest
Chief Executive

Date: 7th July 2023

APPENDIX 1: Action plan for improvement following review of effectiveness of governance arrangements 2023-24

	Action	Who	Date
1	<p>Annual Review of Corporate Governance</p> <p>At the end of the year, the Council will produce its statement on governance, which includes end of year assurance statements by Directors, Assistant Directors/Chief Officers and internal audit's opinion report.</p>	Monitoring Officer	May 2024
2	<p>Governance Arrangements</p> <p>To keep under review the Council's governance arrangements, making any necessary improvements in response to the reported potential breaches that are investigated throughout the year.</p>	Monitoring Officer	March 2024
3	<p>Data Retention Policy and General Data Protection Regulation</p> <p>To keep under review, the Data retention policy and the new General Data Protection Policy ensuring Officers and Members of the Council are aware of their responsibilities.</p>	Monitoring Officer	March 2024
4	<p>Review of the Overview & Scrutiny Committee function</p> <p>To keep under review the governance and working arrangements of the committee.</p>	Monitoring Officer	Ongoing
5	<p>Financial Management Code</p> <p>Raise awareness in the organisation of the CIPFA Statement of Principles of Good Financial Management.</p>	Chief Financial Services Officer & Monitoring Officer	December 2023
6	<p>Develop temporary corporate policy compliance function</p> <p>To provide independent oversight and ensure that compliance with key corporate policies is monitored and reported to senior management team.</p>	Corporate Finance Director	August 2023

7	Corporate Policy Training Maintain corporate policy training programme and staff understanding of corporate expectations, roll out to new recruits.	Chief HR Officer	Ongoing
8	Corporate Governance Group Establish Corporate Governance Group to strengthen internal assurance and compliance with corporate policies. Monitor staff surveys and conduct programme of spot checks to ensure that new training and processes to strengthen declarations, management of and conflicts of interest, and adherence to procurement policy are monitored and corporate expectations embedded.	Corporate Finance Director Corporate Governance Group	July 2023 In place July 2023
9	Development of the new Programme Management Office Function Continue to develop the Programme Management approach across all of the Council's major projects to provide standardised reporting, consistency and governance oversight across all projects. .	Chief Officer Corporate Estate & Development	March 2024

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APPENDIX 2: Action plan for improvement following review of effectiveness of governance arrangements 2022-23

	Action	Who	Date	Progress Update
1	<p>Annual Review of Corporate Governance</p> <p>At the end of the year, the Council will produce its statement on governance, which includes end of year assurance statements by Directors, Assistant Directors/Chief Officers and internal audit's opinion report.</p>	Monitoring Officer and S.151 officer	May 2023	<p>The review of Corporate Governance has been completed for year 2022/2023, this document will remain live and under review until the accounts are signed.</p> <p>The annual review of governance for 2023/24 will be undertaken in early 2024.</p> <p>Status: Completed</p>
2	<p>Governance Arrangements</p> <p>To keep under review the Council's governance arrangements, making any necessary improvements in response to the reported potential breaches that are investigated throughout the year.</p>	Monitoring Officer	March 2023	<p>This is a matter which is being kept under ongoing review.</p> <p>Status: Ongoing</p>
3	<p>Data Retention Policy and General Data Protection Regulation</p> <p>To keep under review, the Data retention policy and the new General Data Protection Policy ensuring Officers and Members of the council are aware of their responsibilities.</p>	Monitoring Officer	March 2023	<p>The Data Protection Policy and the General Data Protection Policy are being kept under review and will be updated as necessary.</p> <p>Status: Ongoing</p>
4	<p>Review of the Overview & Scrutiny Committee function</p> <p>To keep under review the governance and working arrangements of the committee.</p>	Monitoring Officer	Ongoing	<p>The governance arrangements of the Overview & Scrutiny Committee is an ongoing action that will be kept under review.</p> <p>Status: Ongoing</p>

5	<p>Financial Management Code</p> <p>Raise awareness in the organisation of the CIPFA Statement of Principles of Good Financial Management.</p>	<p>Chief Financial Services Officer & Monitoring Officer</p>	<p>December 2022</p>	<p>This work will be undertaken in late 2023, as part of a suite of training to be delivered to officers.</p> <p>Status: Not Completed Scheduled to be completed by December. 2023.</p>
7	<p>Otterpool Park Governance Arrangements</p> <p>Periodically review the assurance framework and governance arrangements between FHDC and Otterpool Park LLP to ensure they reflect the needs of the Council.</p>	<p>S151/ Monitoring Officer</p>	<p>Autumn 2022</p>	<p>Work is underway to review the Governance Arrangements and early discussions have happened with the LLP. The Assurance framework has been reviewed by the Monitoring Officer and S.151 officer and is being kept under review. Similarly, the Governance arrangements for Otterpool are being kept under review by the relevant officers.</p> <p>Status: In Progress</p>
8	<p>Development of the new Programme Management Office Function:</p> <p>To implement and develop a programme management office approach across all of the Council's major projects to provide standardised reporting, consistency and governance oversight across all projects.</p>	<p>Programme Management Lead Specialist</p>	<p>March 2023</p>	<p>Work has commenced, with the broad framework having been established but not yet widely rolled out. Function is under review due to funding availability.</p> <p>Status: On-hold until Programme Management Lead Specialist appointed</p>
9.	<p>Review of the Partnership Policy</p> <p>To review and update the Council's Partnership Policy to ensure it's reflective of current working practices.</p>	<p>Performance & Improvement Specialist</p>	<p>October 2022</p>	<p>The work on reviewing the Partnership Policy has been concluded. Minor changes were made to the policy and signed off by the Portfolio Holder in April 2023. The updated policy has now been published on the Council's website, staff Intranet and circulated to all service leads.</p> <p>Status Completed.</p>

This Report will be made public on



Report Number **AuG/23/08**

To: Audit and Governance Committee
Date: 11 July 2022
Status: Non-Key Decision
Head of Service: Lydia Morrison, Interim Director of Corporate Services
Cabinet Member: Councillor Tim Prater – Leader & Cabinet Member for Finance

Subject: 2021/22 and 2022/23 Statement of Accounts Update Report

Summary:

This report provides an update on recent work undertaken, in relation to prepare the Council's Statement of Accounts for 2021/22 and 2022/23.

Reasons for recommendations:

The Committee is asked to agree the recommendation in order to formally note the progress made against key actions undertaken by Grant Thornton.

Recommendations:

1. To receive and note Report AuG/23/08.

1. INTRODUCTION

- 1.1 This report updates the Committee with the current position in respect of Folkestone and Hythe' s Annual Accounts.

2. UPDATE ON AUDIT OF THE 2020/21 and 2021/22 ANNUAL ACCOUNTS

- 2.1 Audit and Governance Committee at its meeting on the 15th March 2023 received the audited Statement of Accounts for 2020/21 and 2021/22. At this meeting the Committee approved the audited Statement of Accounts for 2020/21 and 2021/22.
- 2.2 Grant Thornton signed the audit reports for the Statement of Accounts for these two years on the 16th March 2023 and the 22nd March 2023 respectively. The audited accounts for both years were published by the end of March 2023.
- 2.3 However Grant Thornton have not yet been able to close the audit for these two years and issue the final audit certificates for both years. This is attributable to a number of objections which have been raised by local authority electors in relation to 2020/21 and 2021/22 Statement of Accounts. Grant Thornton made clear in the audit reports that they did not anticipate that the objections raised would result in any material changes to the audited accounts. Grant Thornton are currently working on clearing these objections and anticipate issuing the final audit certificates soon. An update on progress will be provided by Grant Thornton at the meeting.

3. UPDATE ON THE UNAUDITED 2022/23 STATEMENT OF ACCOUNTS

- 3.1 The Accounts and Audit Regulations 2022 require the Council to prepare the unaudited 2022/23 Statement of Accounts by the 31st May 2023 and publish the audited 2022/23 Statement of Accounts by the 30th September 2023.
- 3.2 The Accounts and Audit Regulations 2022 provide for a period of 30 working days for the exercise of public elector rights to inspect the draft 2022/23 accounts and related supporting documents. This is linked to the deadline for the completion date for 2022/23 Statement of Accounts of 31st May 2023 and, should include the first 10 working days of June, with inspection dates being between 1 June and 12 July 2023.
- 3.3 The delays to audit of the 2020/21 and 2021/22 Statement of Accounts, due to a variety of complex factors, have impacted on the preparation of the 2022/23 Statement of Accounts and the Council will not be in a position to commence the period for the exercise of public rights as set out above.
- 3.4 It is provisionally anticipated that the Council will publish the unaudited 2022/23 Statement of Accounts on Monday 31st July and therefore on this basis the period for public inspection would commence on the 1st August and end on the 12th August.

3. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

3.1 Legal Officer's Comments (AK)

There are no additional legal comments arising from this report

3.2 Finance Officer's Comments (CS)

There are no financial implications arising directly from this report.

4. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting

Lydia Morrison – Interim Director of Corporate Services

Telephone: 07935 517986 - email: lydia.morrison@folkestone-hythe.gov.uk

The following background documents have been relied upon in the preparation of this report:

- None

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This Report will be made public on 12 July 2023



Report Number **AuG/23/05**

To: Audit and Governance Committee
Date: 20 July 2023
Head of Service: Lydia Morrison, Director of Corporate Services
Cabinet Member: Councilor Tim Prater, Deputy Leader and Cabinet Member for Finance and Governance

Subject: Delay to commencement of the external audit of the 2022/23 Statement of Accounts

Summary: The Council's external auditor; Grant Thornton has advised the Council that there will be a delay in the commencement of the 2022/23 audit of the Council's 2022/23 Statement of Accounts.

Reasons for recommendations:

The Committee is asked to agree the recommendation and Grant Thornton will be present at this meeting to update the committee on this agenda item.

Recommendations:

1. To receive the external auditors update and note Report AuG/23/05.

1. Introduction - Audit of the Statement of Accounts 2022/23

- 1.1 It had been anticipated in pre-planning discussions with the councils that the external audit of the 2022/23 Statement of Accounts would commence at the end of June 2023.
- 1.2 Grant Thornton have since advised the council (in May) that due to a number of factors, the audit of the Statement of Accounts will now commence in October 2023, this will start with the planning and risk assessment work and then run into the main accounts audit work.
- 1.3 Grant Thornton also wrote to the Chair of the Kent Chief Accountants Group on 6 April to outline the revised audit plan for the area as a whole and to outline the revised plan for the delivery of the regions 2022/23 audit.
- 1.4 Grant Thornton have given permission for this letter to be shared with the committee for information and they will be present at this meeting to speak to this item and updated the committee as appropriate.

2. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

2.1 Legal Officer's Comments (AK)

There are no direct legal implications arising out of this report that are not already referred to in the report.

2.2 Finance Officer's Comments (BT)

This report has no direct financial implications other than the delay of the external audit process as detailed in this report.

Diversity and Equalities Implications (AS)

- 2.3 There are none arising directly from this report

3. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting

Lydia Morrison – Director of Corporate Services

Telephone: 07935 517986

email: Lydia.morrison@folkestone-hythe.gov.uk

Appendix

1. Copy of letter to Chair of Kent Chief Accounts Group from Grant Thornton.

Our ref:
Your ref:

Paul Worden
Tonbridge & Malling Borough Council
Gibson Building
Gibson Drive
Kings Hill
West Malling
ME19 4LZ

Grant Thornton UK LLP
30 Finsbury Square
London
EC2A 1AG
T +44 (0)20 7383 5100

6 April 2023

Dear Paul,

Thank you for your letter dated 23 March 2023 in respect of the 2022/23 audits in Kent. You raised several points which I will answer in turn but thought it appropriate to start with the big picture. The local audit market has been struggling for a number of years. We have explored these items in detail in the attached publication which was issued last month [About time? \(grantthornton.co.uk\)](https://www.grantthornton.co.uk). The reality is that shortfalls in UK trained public sector auditors, weaknesses in local authority accounting and capacity, increased complexity of accounts under IFRS and a substantial increase in regulatory scrutiny by the Financial Reporting Council and the Quality Assurance Directorate of the ICAEW have all combined to get the position where only 12% of audits were signed by the 30 November 2022 deadline. Since the issuing of the statutory override which dealt with Infrastructure Assets, a further swathe of audits has been signed - . Grant Thornton is substantially ahead of other firms in terms of audit sign off with a current figure of 45%. Indeed, we were aware that two firms with over 50 audits between them had only signed one of them as at 31 December 2022.

Meeting the statutory deadline

At the end 2022 there were over 600 audits outstanding in local government, covering a range of years, going back as far as 2017/18. The majority of the very old audits are due to significant technical issues or objection related activity which absorb a significant amount of audit time. Whilst audit resources (in the context where the audit requirements have probably doubled in five years) are an issue, the longstanding issues at councils such as Warrington, Nottingham, Sandwell, Croydon, Slough, Liverpool etc with the multiplicity of statutory action are a considerable drain on our audit resources. The input into one of these bodies is over 8 x the original budget and due to Government commissioners and other interventions we are required to prioritise this work. Our aim is however to clear the majority of the backlog by March 2024, whilst recognising that some audits remain difficult due to complex technical or legal issues and finance team capacity.

IT procedures

The IT procedures you refer to relates to the implication of ISA 315 which applies to local authority audit for the first time in the 22/23 audits. ISA 315 is not just about IT but that is the one of the key elements. It's a complicated standard and we have had detailed training on the implications of the standard only in 2023, hence the timing of communications to bodies. In reality, the main impact of this change is on

audit teams and the level of documentation required, which whilst it may require some additional input from clients than in previous years this should not be onerous.

Changes to materiality

Changes to materiality must always be on an audit by audit basis. The firm is considering a different approach to materiality on Pension Funds nationally based on regulator feedback but at a local level I would not anticipate significant general changes to materiality unless the prior year audit or the Council's financial position deemed that a change was necessary from a risk perspective.

Communication

I am a great believer that communication can always be improved on both sides. I would urge any authority who has concerns about communication from their audit team to reach out straight away to their engagement lead. They are the individuals who have the clear authority to institute change as needed. As for staff continuity, we do actually try to ensure this but are often thwarted by staff turnover. There are many less challenging jobs in the finance sector than being a public sector auditor and particularly in London and the South-East, it's really clear that newly qualified accountants and audit managers have a significant numbers of options - mostly outside of audit.

Our plan for 2022/23 audits

Our leadership team has reflected on our experiences in previous years and have recognised that we have tried to please everyone and spread our resource too thinly, particularly given the well documented symptoms of the state of the local audit system. As we come to the end of the PSAA contract, in London and the South East we have one county and five London boroughs to hand over to new audit suppliers, which will require these audits to be completed in a timely manner.

This year will see a change to our resourcing plans. We intend to commence all upper tier audits (including at least one year for those audits where will be working on years prior to 2022-23) in July 2023 with a hard close completion of 31 October 2023. We will then put all of our resource (circa 140 people) into delivering all 22/23 districts and Kent & Medway Fire and Rescue Service and at least one year of those who are behind by 31 December 2023. We will obviously need to agree detailed plans with individual bodies and if some of the upper tier audits are not achievable, based on an initial risk assessment, they will be replaced by those districts who have a good track record of delivering timely and good quality accounts. We acknowledge this is a fundamental change for Kent councils and will mean that the statutory deadline will not be met. Whilst this is our planned approach for 2022/23, this will be revisited as we commence the new PSAA Contract from 2023-24.

This is a very challenging time for all concerned but Grant Thornton is determined to play its part in reducing the backlog and help put the local audit system back on a sustainable footing.

Yours sincerely



Paul Dossett
Audit Partner

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This Report will be made public on 12 July 2023



Report Number **AuG/23/06**

To: Audit and Governance Committee
Date: 20 July 2023
Head of Service: Lydia Morrison, Director of Corporate Services
Cabinet Member: Councilor Tim Prater, Deputy Leader and Cabinet Member for Finance and Governance

Subject: Grant Thornton publication – “About Time?”

Summary: The Council’s external auditor; Grant Thornton have issued a publication entitled “About time. They have asked for this publication to be shared with Members of the Audit & Governance Committee.

Reasons for recommendations:

The Committee is asked to note the Grant Thornton publication.

Recommendations:

1. To receive Report AuG/23/06 and the external auditors publication “About time?”.

1. Introduction – updates from Grant Thornton

- 1.1 The council's external auditor Grant Thornton will issue publications from time to time, on topical accounting and auditing issues.
- 1.2 Grant Thornton have recently issued a publication entitled "About time?" This publication explores the reasons for delays in the publication of Local Authority accounts.
- 1.3 Grant Thornton has asked for this publication to be shared and discussed with members of the Audit & Governance Committee.
- 1.4 Grant Thornton will be present at this meeting to speak to this item and update the committee as appropriate.

2. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

2.1 Legal Officer's Comments (AK)

There are no direct legal implications arising out of this report that are not already referred to in the report.

2.2 Finance Officer's Comments (BT)

This report has no direct financial implications within this report.

Diversity and Equalities Implications (AS)

- 2.3 There are none arising directly from this report

3. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting

Lydia Morrison – Director of Corporate Services

Telephone: 07935 517986

email: Lydia.morrison@folkestone-hythe.gov.uk

Attachments:-

- 1. Copy of Grant Thornton publication "About time"?**

About time?

Exploring the reasons for delayed publication of audited local authority accounts

March 2023



Contents

Section	Page
Executive summary	01
Introduction	04
Importance of audited accounts	05
Publication requirements and performance	07
Reports, reviews and inquiries	09
System leadership	10
Audit Quality	12
Risks in an evolving sector	15
Complexity of accounts and reporting requirements	17
Quality of draft accounts	18
Responding to the audit process	19
Capacity	20
Governance	23
Appendix	
Management and audit committee checklists	24
Timeline	25
Bibliography	27
Glossary	28

EXECUTIVE SUMMARY

Time for change

There are some reasons for optimism that there will be an improvement in the timeliness of publication of audited accounts as foundations are being laid for the future.

The Audit, Reporting and Governance Authority (ARGA) will act as the new systems leader for local audit, with a dedicated unit with local government audit expertise. Interim arrangements are in place, including the appointment of the first Director of Local Audit (DLA) by the Financial Reporting Council (FRC). The FRC and the Department for Levelling Up, Homes and Communities (DLUHC) have published an agreed memorandum of understanding which sets out the roles and responsibilities the FRC will take on as system leader during the shadow period ahead of the intended establishment of ARGA.

Public Sector Audit Appointments Ltd (PSAA) has awarded new contracts at more sustainable fees, and new market entrants should help to secure a more competitive and resilient local audit market over time.

The current National Audit Office (NAO) Code of Audit Practice (CoAP) will apply for the next PSAA contract round, through to 2027/28, providing greater certainty on audit workloads.

Delays caused by infrastructure accounting have been largely resolved by the related Statutory Instrument and revised accounting requirements and guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA). Steps are being taken to develop a longer-term approach to the accounting framework for these assets.



While these changes are positive, we do not consider that they are sufficient. The actions do not address the backlog of audits nor do they set out a sustainable future for local audit. We note the following matters that are yet to be tackled:

- **Clarity over the purpose of local audit** – there remains a lack of agreement over the role of local audit. The balance between financial statement audit and value for money audit has moved in the last 10 years towards financial statement audit. In our experience the current focus on financial statements audit is not always valued by the sector. An urgent debate is needed over the role and focus of local audit that involves the sector and key stakeholders.
- **Complexity of local government financial statements** – statutory accounts in the sector are complex due to the need to comply with both IFRS and statute (covering overrides for pensions, property, plant and equipment, school grants, financial instruments and infrastructure). Further, in recent years, more councils have become more commercial, sometimes resulting in highly complex accounting. Accounts regularly exceed 100 pages and are not easily understandable by members of the public. A consensus is needed on the right financial reporting framework for local government.
- **Focus of financial statement work** - in our view, there is no universal agreement between the sector and stakeholders over the focus of financial statement audits. This is particularly prevalent in the audit of land and buildings for example schools and other operational buildings. We note that this is the prime cause of delays in issuing audit opinions. Without consensus on this and what matters for the sector and its decision making we do not consider that there will be significant progress in returning to timely audit.
- **Finance teams** – the quality of too many financial statements and working papers are not adequate. Some councils have multiple sets of accounts open. Improvement in accounts preparation, and recruitment and investment in finance teams is essential if local government is to prepare consistently high-quality draft accounts and respond to the challenges presented by an enhanced audit regime. Greater accountability is needed from Finance Officers and Audit Committees.
- **Dealing with the backlog** – public sector audit is a specialist skill with finite resources; too much of this resource is now absorbed in resolving the backlog of audits and in dealing with poor governance and financial reporting at a small proportion of audited bodies. The local audit framework needs some temporary flexibility to deal with the serious backlog of audits. For example, by introducing reduced financial reporting requirements for late audits. Late audits create a high risk for current financial reporting governance.
- **Intervention** – there is no legislative basis for audit firms to issue modified opinions or close audits where financial reporting issues are extensive, or audits are elongated. Audits can continue indefinitely, unlike in the corporate world where companies can be struck off for failure to file accounts. Government intervention, in our view, is needed for audited bodies where there are significant failures in financial reporting and an unwillingness to take the necessary steps to produce robust financial statements.

Until these matters are resolved, we do not consider that the September deadline for audited financial statements proposed by DHLUC is achievable.

While we have made recommendations for other stakeholders in the sector, we recognise that we have our own part to play in resolving the backlog. As a firm we have a clarity of purpose – doing what is right, ahead of what is easy. We have invested heavily in recruiting and training the auditors of the future. We are committed to delivery of high-quality audits and continuous improvement. We continue to develop and deliver responsive training for our team, bespoke to the public sector audit environment; this is accompanied by assessments to test understanding. We have invested in information technology, including in data extraction tools, workflow management systems and a cloud-based audit platform.

We have also invested in central quality teams, staffed with experts in public sector audit quality and financial reporting and in a partner-led Quality Support Team. As the market leader in this sector, we will continue with our investment in this sector and with our work to resolve the matters highlighted above.



What more can be done?

All key stakeholders in the local audit system will need to continue their efforts to secure improvement and a return to high levels of compliance with timely publication of audited accounts. We explore several of the causes of delay in this report and steps which might be taken to reduce the incidence of delays. These steps relate to systems leadership, holding both authorities and auditors to account for their performance, a continued focus on the quality of accounts preparation and audit, and the effective engagement between auditors and audited bodies.

Our recommendations to improve timeliness are as follows:

For FRC, ARGA and Government

R1. To determine how to deal with the backlog of local government audits. In particular, to consider whether temporary flexibility can be introduced into the local audit framework to allow reduced scope audits to be undertaken on backlogged accounts. We consider this would be of benefit to the local government entities freeing them up for more forward-looking activities with limited detrimental impact on the users of the financial statements given some outstanding financial statements date back to 2015/16.

For FRC and ARGA

R2. To determine and agree with Government the purpose of local audit and the required focus on the financial statements and value for money arrangements elements respectively, particularly in relation to the audit of land and building assets.

R3. To consider whether local auditors can be represented as key stakeholders in local audit system meetings convened by the new Director of Local Audit.

R4. To consider whether the system leader's Annual reports on the state of local audit should highlight instances of poor financial reporting and longstanding delay to the publication of both unaudited and audited accounts.

For Government

R5. To require statutory officers to attest to the effectiveness of their financial reporting process, in line with Sir Donald Brydon's recommendation. This should form part of Government accounting requirements and non-compliance should result in intervention.

R6. To introduce intervention with commissioners where authorities do not afford sufficient priority to their financial reporting responsibilities.

R7. To decouple the reporting requirements for Pension Funds and Administering Authorities.

For FRAB, CIPFA/LASAAC and Government

R8. To reframe the accounting code to ensure financial statements provide the information needed by Government and elected members to manage and govern the local government sector.

This should include consideration of Whole of Government Accounts (WGA) requirements, particularly with regard to compliance with IFRS.

R9. To address Redmond's recommendation for summarised and accessible financial information to be made available to citizens, either through specifying required content within Narrative Reports or by introducing a standardised summary statement.

For local government bodies

R10. To make new investment in and keep under review the adequacy of in-house financial reporting skills, paying close attention to succession planning and professional training, and look to collaborate with other authorities or commission independent support where additional capacity or expert advice is required.

R11. To ensure auditors are engaged at an early stage where innovative, complex or significant transactions are anticipated, to allow for effective planning of the additional audit work which may be required.

R12. To ensure more consistent and robust completion of CIPFA's Disclosure Checklist and allow adequate time for robust internal quality assurance before draft accounts and working papers are presented for audit.

R13. Where significant accounting estimates are made, ensure the underlying assumptions and judgements are clearly documented and that appropriate experts are employed by the local government entity to support management on these judgements and estimates. These judgements should routinely be reported to Audit Committees.

For Audit Committees

R14. To hold management and auditors to account for preparing and monitoring delivery plans.

R15. To undertake a regular assessment of whether they have appropriate membership, training, and access to the professional support they need to effectively discharge their responsibilities.

R16. To report to full Council on an annual basis with their assessment of the accounts preparation and audit process.

For auditors

R17. To focus on continuous improvement in delivering accounts audit and value for money arrangements work early and fostering effective working relationships where changes and potential complexities are identified, discussed, and planned for as soon as practicable.

R18. To consider whether to issue statutory recommendations where significant failures in financial reporting or governance are identified, delays become unacceptable or where insufficient attention is paid to timely financial reporting.

R19. To focus on making local public audit a more attractive career choice and promote the value of public sector audit and the wider societal benefits of robust and independent scrutiny.

R20. To support the local audit workforce strategy led by the Financial Reporting Council.

Introduction

There is broad consensus on the critical importance of robust and independent external audit of accounts in public sector accountability and the stewardship of public funds.

The extent of delay in publication of audited accounts across the local authority sector is severe and is therefore of widespread concern. In July 2021, the Public Accounts Committee (PAC) reported that without urgent action from government, the audit system for local authorities in England might soon reach breaking point.

By December 2022, PSAA had reported that across the sector more than 220 opinions from years prior to 2021/22 remained outstanding. Including 2021/22, audit firms still had more than 630 overdue opinions to issue as at December 2022 – by way of comparison, PSAA awarded contracts relating to 456 principal audits in Autumn 2022.

In this report we explore the requirements for publication of draft and audited accounts and look at some of the reasons for the decline in performance against these requirements over time. Only 12% of audited accounts for 2021/22 were published by the target date of 30 November 2022. There is no single cause for the delays in completing local authority audits, and unfortunately there is no quick solution in a complicated system involving multiple parties. We consider a variety of factors contributing to delays, note the measures which have already been taken to support the local audit system and make recommendations for further improvement.

The achievement of deadlines for 2021/22 is clearly poor. There are some reasons for cautious optimism that the system will begin to recover and there will be a gradual return to better compliance with publication targets. However, we consider that these are outweighed by a number of risk factors and that the September deadline for audited accounts set by DHLUC is not achievable in the short term and also not achievable until there is further significant change in local audit and local government.

All key stakeholders including local audited bodies, the audit firms, DLUHC, PSAA, the NAO, the FRC and its successor ARGA, CIPFA and the Institute of Chartered Accountants in England and Wales (ICAEW) will need to continue their efforts to support a coherent and sustainable system of local audit, acknowledging that it will take time to get things back on track.



Importance of audited accounts

Local authorities, police and fire bodies in England are responsible for approximately £100 billion of net revenue spending each year. These bodies are responsible for delivering many of the public services which local taxpayers rely on every day.

The intended primary users of local authority accounts are citizens, as taxpayers and users of local services, and the framework for financial reporting and audit needs to protect their interests. In practice, due to their complexity, local authority accounts are primarily used by other key stakeholders, including elected members, those responsible for governance, Parliament, DLUHC, the NAO, businesses, banks and other financial institutions, auditors, regulators and the press.

The NAO have commented that proper accounting for public funds and high-quality public audit are pivotal for trust in public finance and expenditure in an accountable and democratic system. The risks from poor governance are greater in the context of funding pressures, as the stakes are higher, and the process of governance itself is more challenging. External audit is one of the key checks and balances in the system of local government.

PSAA, the body responsible for securing appointment of auditors on behalf of most local authorities, recognises audited accounts as the main way public bodies demonstrate accountability for managing public money. They consider publication of timely audited accounts, with an audit opinion, as a key element of financial management arrangements and a fundamental feature of good governance.

CIPFA LASAAC, the Board responsible for preparing the Code of Practice on Local Authority Accounting for the United Kingdom, notes UK local authority accounts should be widely recognised as an exemplar for clear reporting of the financial performance and position of public sector bodies. Users of accounts should be able to access the information they want to help them to understand the finances of an authority and to take practical and informed decisions.



The PAC, in its May 2019 report *Local Government Governance and Accountability*, commented that the then Ministry of Housing Communities and Local Government (MHCLG) placed great reliance on external auditors. It recognised that the importance of this work is heightened as council activities become more varied, complicated and commercial.

MHCLG was clear it viewed a robust local audit system and transparent local authority financial reporting as key to delivering Value for Money (VfM) to taxpayers, and for sustaining public confidence in our systems of local democracy. Statutory accounts are the only publicly reported information provided by local authorities that are subject to external audit. For users of the accounts to trust and rely on this information, they must both have confidence the audit process is robust and be able to understand what the financial reports are telling them.



Audit ensures transparency and, done well, encourages audited bodies to have strong governance and financial records. Effective, high-quality audit is becoming increasingly important as local authorities' accounting practices become more complex and the sector comes under financial pressure. In recent years more councils have become more commercial, sometimes becoming involved in activities they have not traditionally had the experience or expertise to operate in. This has changed the risks that councils are facing, so it is essential that the financial reporting and audit process is able to make these risks clear to the reader.

The FRC, the body responsible for the publication of auditing standards and monitoring the quality of major local audits, views high quality audit as essential to maintain stakeholder confidence by providing an independent view of a major local body's financial statements and arrangements in place to secure VfM. Poor auditing may fail to alert management, the public and other stakeholders to material misstatements, including those arising from fraud, or financial control weaknesses, not already identified or addressed by management.

The combination of management not meeting their responsibilities and poor auditing could potentially put resources, services, and jobs at risk.

There is consensus on the importance of audited accounts and it is no surprise that delays in their publication are of widespread concern. Crucial issues may not be identified in a timely manner if auditors are bogged down in prior year audits - a small number of audit opinions are now six or seven years behind schedule.

Timeliness matters and the implications of the late delivery of audit opinions are significant. Local authorities need accurate and reliable financial information to plan and manage their services and finances effectively. Accounting information and audit reports needs to reach government in a structured, timely and co-ordinated fashion. Delays to local audits cause delays for audits elsewhere in the public sector and ultimately for the Whole of Government Accounts.

In the next sections of this report we will consider the publication requirements for the accounts and performance against these targets before exploring reasons for the delays experienced in recent audit cycles.

Publication requirements and performance

Requirements

The Local Audit and Accountability Act 2014 (the Act) requires local government, police, fire and other relevant authorities to prepare annual accounts which must be audited in accordance with the provisions of the Act.

The Accounts and Audit Regulations 2015 (AAR 2015) establish the timetable for publication of unaudited accounts and the subsequent publication of the accounts, together with any certificate or opinion issued by the auditor. Where an authority is unable to publish its accounts with the auditor’s opinion, it must publish a notice to that effect, including the reasons for the delay. Thus, while there is no explicit statutory deadline by which auditors must give their opinion on the financial statements, there is a clear expectation that local authorities should publish accounts with the auditor’s opinion by the statutory publication date.

For financial years up to 2016/17 only a small proportion of bodies failed to meet the audited accounts publication target, and this was always to be expected, due to specific local accounting, auditing, or resourcing issues.

For audited bodies, the challenge from 2017/18 was to prepare draft accounts within two months of the year end and for auditors it was to conclude their audits two months thereafter; parity for preparers and auditors being preserved, with each having one third less time than they had for 2016/17.

In recognition of the many challenges the outbreak of the Covid-19 pandemic posed, the accounts publication timetable was extended. Preparers had until 1 September 2020 to publish draft 2019/20 accounts and until 30 November 2020 to publish accounts with any certificate or opinion issued by the auditor.

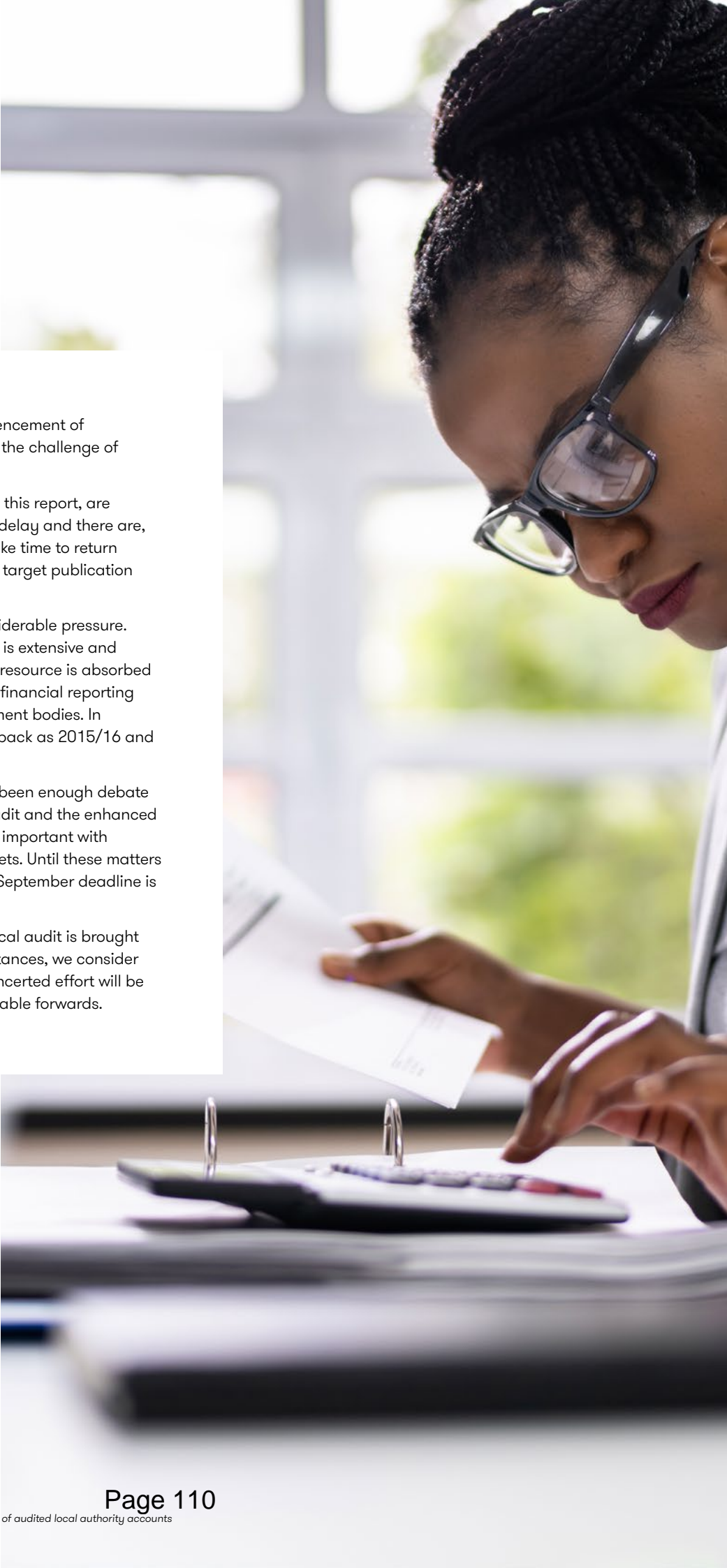
Several authorities pressed ahead, working to their original 31 May 2020 timetable, but the pressures of responding to a crisis which was unprecedented in recent times meant that many could not. Where authorities worked to their new statutory deadline, five months after the year end, auditors had just three months to conclude their work, if the target for publication of audited accounts was to be met. The uncertainties brought about by the pandemic, the consequent changes to local government finance and the restriction of lockdowns added to the challenge of delivering local audits. We explore this in more detail later in this report.

In July 2022, the Accounts and Audit (Amendment) Regulations SI 2022/708 came into force setting the target date for publication of 2022/23 to 2027/28 audited accounts as 30 September after the relevant financial year end.

Table 1 illustrates the declining performance against the target date for publication of audited accounts in recent years.

Table 1 Audited accounts published by target date over the last six years

Financial year	Deadline for publication of unaudited accounts	Target date for publication of audited accounts	% audited accounts published by target date (all firms average)	% audited accounts published by target date (Grant Thornton audits)
2016/17	30 June 2017	30 September 2017	95	97
2017/18	31 May 2018	31 July 2018	87	91
2018/19	31 May 2019	31 July 2019	58	65
2019/20	1 September 2020	30 November 2020	45	54
2020/21	1 August 2021	30 September 2021	9	12
2021/22	1 August 2022	30 November 2022	12	20

A woman with dark hair and glasses is looking down at a document she is holding. She is in an office setting with a window in the background showing greenery. In the foreground, there is a desk with a calculator and some papers.

With a growing backlog of audits, commencement of subsequent audits is delayed, increasing the challenge of returning to sustainable, timely delivery.

The reasons for the delays, as explored in this report, are multi-faceted. There is no single cause of delay and there are, unfortunately, no quick solutions. It will take time to return to consistently high performance against target publication dates.

Audit resources are finite and under considerable pressure. At the time of writing, the backlog of work is extensive and greater than ever before. Too much audit resource is absorbed in dealing with longstanding and historic financial reporting issues at poorly performing local government bodies. In certain instances, audits are open as far back as 2015/16 and continue to absorb audit resource.

Perhaps more importantly, there has not been enough debate with the sector on the purpose of local audit and the enhanced audit scrutiny it faces. This is particularly important with regards to the audit of local property assets. Until these matters are resolved we do not consider that the September deadline is achievable.

We think it is about time the delivery of local audit is brought back on track. Under the current circumstances, we consider that a November date is achievable. A concerted effort will be needed from all parties to move this timetable forwards.

Reports, reviews and inquiries

PAC, in its May 2019 report Local Government Governance and Accountability commented that MHCLG did not know why some local authorities were raising concerns that external audit was not meeting their needs.

However, a number of key representative organisations and councils informed PAC they had concerns about external audit. In recognition of PAC's concerns and the importance of local audit, in June 2019 MHCLG asked Sir Tony Redmond to carry out a review of the effectiveness of local audit and the transparency of local authority financial reporting. Redmond is a former local authority treasurer and chief executive, former CIPFA President, and is well-respected by the various stakeholders involved in local public audit.

Redmond's Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting, published in September 2020, followed Sir John Kingman's Independent Review into the Financial Reporting Council published in December 2018, the Competition and Markets Authority Statutory audit services market study published in April 2019 and Sir Donald Brydon's Independent Review into the quality and effectiveness of audit which was published in December 2019.

Redmond's report included a total of 23 recommendations. His recommendations included that a new body, which he suggested be named the 'Office of Local Audit and Regulation' (OLAR), be created to manage, oversee and regulate local audit. He also recommended the fee structure for local audit be revised to ensure adequate resources are deployed and that the deadline of 31 July for publication of audited accounts, which was viewed as unrealistic, be revisited with a view to extending it to 30 September.

Touchstone Renard's (TR) February 2020 report Future Procurement and Market Supply Options Review, commissioned by PSAA, noted the timing of local audits was problematic. They reported the target date of 31 July was putting extreme pressure on experienced staff and requiring more use of less experienced staff, potentially compromising quality. The target date was reported as the single most important factor, apart from fees, making the market unattractive and threatening its sustainability.

In the government's initial response to the Redmond Review, published in December 2020, MHCLG agreed with Redmond's recommendation that the timetable for publication of audited accounts be reviewed. MHCLG indicated that, subject to consultation, regulations would be amended to extend the deadline to 30 September for a period of two years, to be followed by a further consideration. In its December 2021 package of measures to improve local audit delays, MHCLG's successor DLUHC went further, committing to extend the deadline to 30 November for 2021/22 accounts and to 30 September for the following six years. This commitment was made good in June 2022, with the laying before Parliament of the Accounts and Audit (Amendment) Regulations SI 2022/708.

In its March 2021 report 'Timeliness of local auditor reporting in England', the NAO noted there were insufficient staff with the relevant qualifications, skills and experience and a net loss of qualified staff in both local finance teams and firms serving the local audit sector. Their report also noted that the pandemic had exacerbated problems which already existed within the local audit landscape.

Following on from reports from Redmond and the NAO, the PAC held an inquiry into the timeliness of local auditor reporting on local government in England in May 2021 and published its report, Local auditor reporting on local government in England, in July 2021.

PAC commented that the accountability of local authorities to stakeholders, such as residents and service users was a priority. It observed the delays in audit opinions gave MHCLG less assured information on the local government sector than usual and warned that without urgent action from government, the audit system for local authorities in England might soon reach breaking point.

PAC made a number of recommendations to MHCLG, including that PSAA's procurement exercise, which was due to commence in 2021, support a new fee regime, that work take place to support accelerated training and accreditation of auditors and that MHCLG address the need for strong system leadership ahead of the establishment of ARGAs.

In the next section we consider the importance of system leadership for local public audit and how, following on from the Act, weak system leadership has contributed to delays in local audit.

EXPLORING THE CAUSES OF DELAY

System leadership

In his report, Kingman observed that following the abolition of the Audit Commission (AC) in 2015, the framework for the local audit regime was ‘split, complex and fragmented’. He observed that public sector specialist expertise had been dispersed around different bodies, with no one body looking for systemic problems and no apparent co-ordination between parties to determine and act on emerging risks.

Multiple organisations currently play important roles in the complex landscape of the local audit system. DLUHC has oversight of local authorities and responsibility for maintaining a set of statutory codes and rules for local authorities. The NAO maintains a Code of Audit Practice (CoAP) for audits of local bodies and issues guidance to auditors. PSAA is the body responsible for securing appointment of auditors on behalf of local authorities opting into its services. CIPFA is responsible for publishing the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and the ICAEW is responsible for independent monitoring of the quality of local audits outside the FRC’s population and for the registration of Key Audit Partners. The FRC is responsible for the publication of auditing standards and monitoring the quality of major local audits (bodies with total income or expenditure exceeding £500m and pension funds with more than 20,000 members or gross assets over £1bn). The external audit firms are responsible for auditing the financial statements of local authorities and concluding on whether authorities have made proper arrangements for securing VfM.

Kingman noted no one body was tasked to understand and examine any tensions arising from current trends, for example between reducing audit fees and the increasing complexity of local audit given the challenging financial situation of local authorities. He noted the FRC was an expert in private sector corporate audit but its expertise and detailed understanding of issues relevant to local audit was limited.

Kingman recommended arrangements for local audit needed to be fundamentally rethought to ensure robust assessment and scrutiny of the quality of local audit work, appropriate enforcement action and the bringing together of all relevant responsibilities by a single regulatory body.

Redmond agreed. He noted the absence of a body to coordinate all stages of the audit process and made detailed proposals for a ‘new organisation with the clarity of mission and purpose to act as the system leader for the local audit framework’. He noted the local audit market was very fragile. Performance against the target for publication of audited 2018/19 accounts signalled a serious weakness in the ability of auditors to comply with their contractual obligations and Redmond noted the fee structure did not enable auditors to fulfil the role in an entirely satisfactory way.

Redmond highlighted lack of co-ordination and the lack of a system leader as being widely recognised weaknesses in the local audit framework.

Therefore, Redmond recommended OLAR be created to manage, oversee and regulate local audit. It would have responsibility for the procurement and management of local audit contracts, reporting annually on the state of local audit, monitoring local audit performance and determining the CoAP.

In our evidence to the PAC inquiry, as in our submission to the Redmond Review, we strongly advocated for a systems leader, given the need for an holistic approach to the audit of a sector which is of critical interest to service users, taxpayers, central government and society at large.

Kingman had proposed a new regulator, ARGA, with a new mandate, a new clarity of mission and purpose, new leadership and new powers and that it should be accountable to Parliament and have a new Board.

Following the Kingman and Redmond reviews, government confirmed its intention that the system leader for local government should be ARGA, with PSAA continuing with the procurement of local government audit.

In its 2021 report, the PAC commented that there was a crisis in local government audit and the need for system leadership for local public audit, identified by Redmond, was pressing. PAC heard of an existential threat to the local government auditing system and it noted practical and concrete steps were needed to address urgent problems, which could not wait for ARGA. In its view, there was a pressing risk of market collapse due to over-reliance on a small number of audit firms and significant barriers to entry. Further, the commercial attractiveness to audit firms of auditing local authorities had declined. PSAA agreed that the challenges facing the market were serious and pervasive.

The government recognised the need for effective system leadership and strongly supported Redmond's recommendation for a systems leader to prepare annual reports on the state of audit in local government.

DLUHC worked closely with PSAA on their strategy for procuring auditors for the 2023/24 to 2027/28 period. The Department also reached agreement with the NAO and FRC that the CoAP 2020 will apply for the whole of the next appointment period, thus providing greater clarity over the scope of local audit in future years.

The FRC will be the convener for the local authority audit system, when it transforms to become ARGA. One of the roles will be the Chairmanship of the Liaison Committee. The intention is for key stakeholders including DLUHC, HM Treasury, CIPFA, ICAEW and PSAA to be represented. ARGA will be responsible for the CoAP, for regulating quality and performance, for producing an annual report, chairing a liaison committee and setting audit standards.

MHCLG also committed to assuming a stronger leadership role in the interim period, before ARGA is established, and it initiated the Local Audit Liaison Committee (LALC) from July 2021. LALC has published minutes of six meetings covering the period up to October 2022. LALC has drawn its membership from a wide range of stakeholders, although whilst members agreed they were happy for audit firms to attend future meetings, no firm has yet been represented there.

The FRC, acting as shadow system convener, appointed the first DLA in September 2022. A Memorandum of Understanding (MoU) between the FRC and DLUHC was published in March 2023. Under the agreement, the FRC will have responsibilities which include leading the response to challenges arising across the local audit system, leading work to improve competition and bolster capacity, overseeing the entire quality framework for local audit and preparing an annual report on the local audit system. In the agreement, DLUHC reinforced its commitment to delivering on the Redmond Review, set out its intent to send the systems leader an annual Remit Letter covering its priorities and signalled it will review the MoU in a year's time.

A key role of the new system leader will be to determine the role of local audit. Over the last ten years there has been a movement away from value for money audit towards financial statement audit. There is currently a lack of agreement over whether this change is the right one. The current focus on the technical aspects financial statements audit is not, in our experience, valued by the sector. This is particularly the case with certain aspects of the audit such as property valuation which have no direct General Fund impact. An urgent debate is needed over the role and focus of local audit that involves the sector and key stakeholders.

We are encouraged by the appointment of the first DLA and will look to support them in their important work, given our mutual interest in audit quality, the topic we consider next.



Audit Quality

In his December 2018 report, Kingman noted the financial crisis ten years earlier reflected failings in accounting and financial reporting. Part of the genesis of his review had been concern that a more effective FRC could do more to avert major corporate collapses, such as that of Carillion plc.

Notably, for 2017/18, no firms subject to Audit Quality Reviews (AQRs) had met the FRC's stated quality target. Kingman noted the FRC's 2018 announcement of plans to enhance its monitoring of the six largest audit firms, including a 35% increase in inspections in 2018/19. His review recommended greater transparency with regards review findings and an increase in the seniority of staff conducting AQR inspections.

Kingman also recommended the arrangements for local audit needed to be fundamentally rethought, and these should include robust assessment and scrutiny of the quality of local audit work. He recommended a separate local audit regulator, with deeper expertise of local audit, a clear objective to secure quality and responsibility for appointing auditors and agreeing fees. This body should have a different, and much more focused, remit than the former AC.

Amongst Brydon's recommendations was the introduction of 'professional suspicion' into the qualities of auditing, in addition to scepticism. Such a change would clearly raise the bar and necessitate additional and more detailed audit work.

He counselled for greater transparency over what the regulator regards as good audits, rather than a majority emphasis on failures, and it is pleasing to see good practice being highlighted in the FRC's 2022 report on the quality inspections of major local audits.

Brydon noted a triangle of reviews, his own, alongside Kingman's and the Competition and Markets Authority's April 2019 Statutory Audit Services Market Study and hoped the time for major reviews was over for several years and that legislative and regulatory action would follow.

The AC had previously contracted with the FRC to undertake quality assurance reviews of local authority audits, with coverage of at least one from each firm for the 2016/17 and 2017/18 financial years. At this time, in their reviews the FRC noted concerns about the quality of audit work relating to operational and investment property and pension liability valuations. The FRC also paid particular attention to audit work relating to the occurrence and completeness of expenditure, impairment of receivables and to auditors' fraud risk assessments and responses. From 2018/19 the FRC's responsibility for AQRs of the 230 larger local authority audits was placed on a statutory footing.

Kingman had noted that the FRC found itself subject to 'tough and persistent criticism', criticisms which put it under an 'unprecedented spotlight'. This then set the scene for FRC inspections of local audits which followed.

In October 2020, the FRC published its first public report setting out the principal findings from its inspection of 2018/19 major local audits. The FRC reported that nine audits, across seven audit firms reviewed, required improvements and, as this represented 60% of the audits reviewed, this was unacceptable, with urgent action required by some firms including the need for detailed Root Cause Analysis. Yet the FRC found that the quality of VfM arrangements work remained high across all audit firms.

The FRC reported that the quality of audit work over property valuations continued to be their area of greatest concern, with auditors needing to strengthen their audit procedures and their challenge of management and valuation experts in the testing of property revalued in the year. This included ensuring sufficient work testing the completeness and accuracy of data provided to, and used by, management experts, challenging and corroborating valuation assumptions and giving consideration to properties not revalued in the year.

This additional scrutiny has, in several cases, led to management commissioning additional work from their valuers and in some cases even led to management replacing their valuers and commissioning reports from new valuation experts. Additional audit focus on property valuations has meant auditors are increasingly reliant on receiving information from expert valuers. It is therefore vital that appropriate valuers are used by local government entities to provide management with high quality information and to provide auditors with appropriate evidence to audit.

In October 2021, the FRC reported that 70% of twenty 2019/20 audits reviewed required no more than limited improvements and that, while it was too soon to identify this improvement as a trend, it was encouraging. The FRC again noted strong performance with regards the quality of VfM arrangements work.

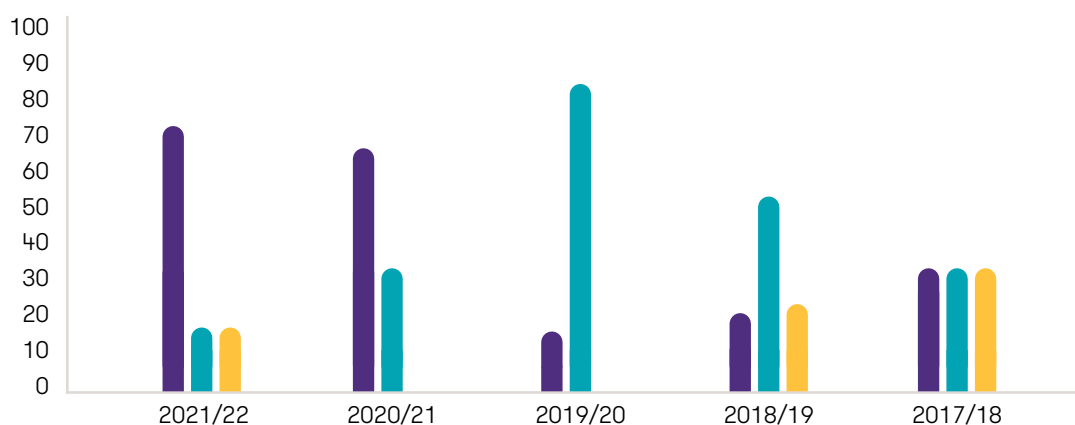
However, the FRC once again noted room for improvement in the audit of property, plant and equipment and investment property balances.

In October 2022, the FRC’s inspection of twenty audits, across the firms, found 70% were good or with limited improvements required, consistent with the prior year – although inconsistency in audit quality remained, and the importance of sufficient evaluation and challenge of assumptions in property valuations was raised once again.

As a firm we have re-affirmed our commitment to audit quality, having invested to expand our public sector audit quality and financial reporting teams and provided more bespoke training, guidance and support to our audit teams. We are pleased with our continuing improvement journey, which reflects on our significant investment in audit quality over recent years and continue to invest in audit quality to ensure that the required standards are met. The positive direction of travel over the past five years is illustrated below:

Table 2 FRC assessment of the quality of Grant Thornton financial statements audits - major local audits

● Good or limited improvements required ● Improvements required ● Significant improvements required



Where FRC findings indicate an auditor has failed to comply with the auditing framework, its Enforcement Committee can sanction an audit firm for such breaches or may refer the conduct in question for consideration under the FRC Accountancy Scheme or the disciplinary procedures of the relevant supervisory body. In January 2022, the FRC issued its first fine to a local audit firm for non-compliance with the Regulatory Framework for Auditing.

Audit firms have acknowledged the need to improve audit quality. In response they have invested in quality improvement programs, additional testing, and are increasingly using experts to inform their audit conclusions. The additional audit work requires additional work from local finance staff. The increased work has, inevitably, increasing the time taken to conduct audits but had also improved the quality of local government financial reporting.

In short, the FRC's focus has been successful in improving both the quality of audit and the quality of financial reporting in the sector. Our firm, and other local audit firms, are not willing to compromise on audit quality. Firms will defer audit reports where it is not possible to complete work to the required standards by target dates.

This has posed a number of issues for the sector.

Local government accounts are complex and need to comply with IFRS and statute (covering overrides for pensions, property, plant and equipment, school grants, financial instruments and infrastructure). The full application of these standards and legislation has substantially increased the volume of audit work required.

The pressure on resource and the significant technical knowledge needed to undertake local government audit has reduced the attractiveness of the sector to audit firms. It is one of the factors that has seen suppliers exiting the market.

Equally, the complexity of audits, high risk commercial ventures and complex accounting arrangements has increased the amount of work needed.

These factors have made local audit a difficult area in which to recruit. There remains a limited pool of local audit talent, with many newly qualified local auditors choosing to follow alternative careers. This has exacerbated timeliness issues.

Audits are now a 'harder test' than they were five years ago. In our view, there is a lack of consensus between the sector and stakeholders over the focus of financial statement audits. This is particularly prevalent in the audit of property. Without consensus on this and what matters for the sector and its decision making, we do not consider that there will be significant progress in returning to timely audit.

Accounting for infrastructure assets is an example of this impact.

In February 2022 concerns were raised by a local government auditor that some authorities were not applying component accounting requirements appropriately to the reporting of infrastructure assets. Infrastructure is a broad class of assets which may include roads, foot and cycle ways, structures such as bridges, tunnels and coastal defenses, street lighting, street furniture and traffic management installations.

The underlying issues were found to be more prevalent than anticipated and the issue quickly became an area of focus for all local audit firms. In recognition of a complex, serious and widespread issue, with the potential to result in audit delays and qualification of audit reports, CIPFA offered to assist and established an "Urgent Task and Finish Group" in March 2022. CIPFA subsequently launched an urgent consultation on temporary proposals to update the Code.

CIPFA, the NAO and the audit firms engaged with DLUHC when it became evident that resolution of the underlying issues was not possible solely through amendment of the Code. DLUHC subsequently determined that statutory regulation was necessary to unlock increasingly apparent complex technical accounting issues.

Code updates and statutory accounting regulations are unusual measures. Due process to update the Code and to introduce secondary legislation takes time. A Code update was published at the end of November 2022 and the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 were laid before Parliament, to become effective at the end of December 2022.

Highways authorities typically hold highly material infrastructure balances, as do some other local authorities. Pending the release of the Code update and the effective date of the regulations, many local auditors were not in a position to conclude that draft accounts presented a true and fair view.

This issue came to light at a particularly unfortunate time, further delaying some 2020/21 and many 2021/22 audits and compounding the delays considered in this report. It took nine months to put in place a temporary solution to this issue, and it will take considerably longer to put in place a permanent solution. The benefit to the sector of this focus on infrastructure assets continues to be debated.

Risks in an evolving sector

The environment in which authorities operate, the expectations upon them and the availability of central government funding have been subject to significant changes over the last fifteen years.

Brydon observed that the 2008 financial crash cast a long shadow forward. Whilst his comments were in the context of corporate audit, there were clear parallels for local audit. Trust in leaders and organisations does appear to have fallen.

Ineffective or untimely audit can contribute to organisational failure if warning signals are not communicated in time, or with sufficient clarity.

In his review, Kingman observed that local authorities were under acute financial pressure, with some engaging in risky speculative ventures. He was very concerned that the quality of scrutiny was being pared back, at the worst possible time.

The Redmond review similarly observed that audit risk has increased as a result of the impact of austerity, including local authorities cutting back on finance staff and in some cases undertaking more risky commercial ventures.

Redmond noted one of the most significant sectoral trends since 2015 was the increased commercialisation of local authorities, citing both investment in commercial property and investment in wholly owned companies including housing and energy companies. The NAO's study on Local Authority Investment in Commercial Property concluded '...as with all investments, there are risks. Income from commercial property is uncertain over the long term and authorities may be taking on high levels of long-term debt with associated debt costs or may become significantly dependent on commercial property income to support services.' Redmond noted if local authority owned companies get into difficulties, the parent authority may ultimately be responsible or may have to write off loans or equity funding and this can impact financial resilience.

Acute financial pressure and risks arising from commercialisation are not theoretical risks, they have manifested in several recent high-profile examples across the local government sector.

Section 114 notices

In February 2018, Northamptonshire County Council's s151¹ officer, issued a s114 notice² which referred to the Council having faced a serious financial problem for some years. The notice stated that the Council faced an overspend of over £20m for the 2017/18 financial year and a danger of ending the year in a negative General Fund position. The notice came with serious operational implications, including a prohibition on entering new agreements involving spending until after full Council met to consider the notice.

Whilst Northamptonshire's was the first s114 notice to be issued in many years, it was not the last, nor the most financially significant. The s151 officers of the London Borough of Croydon, Slough Borough Council, Nottingham City Council and Northumberland County Council have all issued such notices, and Thurrock Council became the latest to join this unenviable club in December 2022. Thurrock's notice outlined the causes of an in-year deficit approaching half a billion pounds.

Timely auditor reporting is of heightened importance where there are instances of significant governance and financial failings. Under the 2014 Act, local auditors have a range of duties and reporting powers, including raising recommendations as part of their VfM arrangements work and issuing statutory recommendations and public interest reports, which audited bodies must respond to in public. Such powers can be, and are, exercised ahead of issuing audit opinions on statutory accounts, in recognition of the importance of bringing matters to stakeholders' attention in as timely a manner as possible.

Inevitably, where there are significant and sensitive matters to consider during the course of an audit, this takes time. This can be due to a combination of factors, including the need for a more sceptical and sometimes forensic approach to the audit, delays in obtaining key pieces of evidence required for the audit, the need to involve auditor's experts such as lawyers or valuers, the need for management to commission professional accounting, legal, valuation or actuarial advice, the need for auditors to consult with senior peers on complex judgements and changes in senior personnel within audited bodies.

Particularly challenging audits can absorb a vast amounts of audit resource, sometimes running into several thousand hours; this, of course, constrains the ability to the firms to progress other more routine audits.

Challenges faced include weaknesses in councils' decision-making processes, the failure of investments and group companies, novel transactions, non-compliance with laws and regulations, serious weaknesses in accounts preparation, bribery and corruption allegations, falsification of documents and in some cases a combination of all these factors which can result in lengthy delays to local audits. The consequences of significant reductions in audit fees will have presented genuine threats to audit quality in an increasingly complex sector.

In April 2020 the NAO published the new CoAP, effective from the 2020/21 financial year. The main change to the preceding CoAP was in respect of local auditor's VfM work. The change involved a move away from a binary 'qualified' or 'unqualified' VfM conclusion to an approach where the auditor now provides detailed commentary on organisational arrangements. This, coupled with changes to the form of auditor recommendations was designed to increase the value of this aspect of local auditor's work and we welcomed and fully supported the new Code which should assist in earlier warning over governance and financial failure.

Until 2018, PSAA published, under AC powers, an annual report summarising the results of local auditors' work and including lists of bodies where the publication date for audited accounts had not been met. Given the significant deterioration in performance against publication targets, such lists would not have been particularly practical or meaningful for years after 2018/19. However, this also means that a public spotlight has been removed from the smaller number of authorities which have been unable to publish audited accounts for long periods. There is a possible opportunity to address this gap in the newly appointed DLA's annual report on the state of local audit.

We will continue to encourage our local auditors to exercise their statutory reporting powers on a timely basis, where it is appropriate they are used. We also believe thought should be given to Government intervention where authorities are not giving sufficient priority to their financial reporting responsibilities.

1. Section 151 of the Local Government Act 1972, see Appendix

2. Section 114 of the Local Government Finance Act 1988, see Appendix

Complexity of accounts and reporting requirements

Local authority accounts are inherently complex and many authorities are increasingly engaging in innovative or unusual projects, such as arrangements involving multiple layers of lease agreements, trading companies, investments in commercial property and property trusts and transactions involving complex borrowings, investments and financial instruments.

Despite this, Redmond noted at least a third of authorities do not even purchase an up-to-date version of the CIPFA Code each year.

CIPFA's Code introduced International Financial Reporting Standards (IFRS) from 2010/11, recognising the framework as a gold standard of accounting which provides better quality financial information. CIPFA notes the strong case for the use of valuation models in accounting for the use of resources. Its view is that for the proper stewardship of assets, it is not enough to simply know how much they cost and how much of that cost has still to be paid for. Information about inherent value and the rate at which this value is consumed is needed to support the continued provision of services, supporting intergenerational equity of resource use.

Since the introduction of IFRS, financial statements contain many estimates and assumptions, generally required to be set out in notes to the accounts, that are dependent on judgements about the future. The impact is particularly notable in accounting for operational and investment property, pension liability balances and financial instruments.

Following the adoption of accruals accounting and IFRS by the local authority sector, successive governments have sought to protect council taxpayers from volatility in taxation arising from accounting entries which do not have an immediate impact on the cost-of-service delivery. This has been achieved through introducing 'statutory overrides' in secondary legislation. Whilst protecting council taxpayers from short-term volatility, the overrides complicate the accounts which are first prepared on an IFRS basis and then, via the Movement in Reserves Statement, on a funding basis. Reconciling the accounting and funding basis results in the inclusion of additional notes to the accounts which can be difficult for the lay reader to understand. Local authority accounts are lengthy compared to

accounts in other sectors and are arguably more complex and more challenging to understand than accounts produced by other parts of the public sector. This increases the risk of error and omission in their preparation.

The NAO has commented that the requirements of IFRS, along with increased expectations from the FRC following the high-profile corporate failures, such as Carillion, have combined to produce a significant increase in audit work, for example on asset and pension valuations.

Brydon reflected that 'annual reports and accounts are already very long' whilst Kingman in his 2018 report commented that 'the regulator should be required to promote brevity and comprehensibility in accounts and annual reports'.

Redmond noted the breadth and complexity of IFRS as one of the factors contributing to the findings of his review. In his evidence to the PAC inquiry however, he noted he did not think many simplifications could be achieved within the framework of statutory accounts and that these will remain complex.

CIPFA published 'Streamlining the accounts' in 2019, emphasising the importance of a focus on who the principal users of the accounts are and what information they need, of the need to improve clarity by removing unnecessary detail and a focus on key messages to be communicated in relation to financial position and performance. The importance of appropriately using materiality to avoid key messages being obscured by excessive detail and the need to consider presentation and layout to help readers navigate through the accounts were stressed. The FRC has also published material on the subject of cutting clutter within accounts.

Another complexity of the current reporting framework has led to unnecessary delay in the conclusion of audits. Local authorities which administer local government pension funds are required to publish full Pension Fund accounts in the same document as their local authority accounts. This requirement means that the audited accounts of the host authority and related fund cannot be finalised until both audits have been completed. This co-dependency has compounded delays in the conclusion of audits and publication of audited accounts and decoupling them would support more timely publication of audited accounts.

In summary, statutory accounts in the sector are complex due to the need to comply with both IFRS and statute. Accounts are regularly over 100 pages and are not easily understandable by members of the public. A consensus is needed on the right financial reporting framework for local government.

Quality of draft accounts

The quality of draft accounts presented for audit can have a significant bearing on the time taken to complete an audit.

Whilst many sets of draft local authority accounts are prepared diligently and are free from material error, this is far from universally the case. In his review, Redmond noted that some auditors have experienced local authorities lacking accounting staff with the technical expertise necessary to complete the accounts.

Often the hallmarks of 'change' or 'complexity', for example a potential new entity within a group reporting boundary, the anticipated loss of control of a subsidiary or contemplation of significant and unusual leasing arrangements, can provide an early indication that financial reporting implications will need careful consideration and that early engagement with the auditor is advisable.

Where draft accounts are not reflective of relevant facts and circumstances, this can and will lead to auditors challenging underlying accounting treatments and in turn this can result in material and sometimes fundamental amendment of the accounts being necessary to avoid qualification. Such amendments cause duplication of effort, not least in both accounts preparers' and auditors reviewing updated versions of draft accounts. The need for amendment of accounts can delay planned timetables and result in the target for publication of audited accounts being missed.

In our experience, issues with group accounts preparation, accounting complexities arising from collaborative working arrangements, complex transactions and failure to meet disclosure requirements can, and often do, cause delays.

Following on from the 2008 financial crisis, a lengthy period of austerity and greater reliance on local sources of funding, the prevalence of new and complex arrangements in the sector has significantly increased. Unusual and complex arrangements often come with the associated risk that accounting implications are not fully understood ahead of transactions being concluded. Too often, auditors are not sighted on such transactions until receiving draft accounts for audit, by which time the opportunity for early risk assessment and engagement has passed.

Understandably, accountants may not have prior experience of similar complex, unusual or novel arrangements and the necessary technical accounting expertise may not be available in-house. Incorrect accounting may have a real impact on General Fund or Housing Revenue Account reserves. We regularly note authorities being reluctant to commission external accounting advice as part of the accounts preparation process. This appears to be in part due to the perceived cost of such advice and in part due to misplaced confidence; however, knowing when to seek advice is a strength and the cost of such advice can be insignificant when compared to the scale of the arrangement being accounted for or to the cost of delays caused by adoption of inappropriate accounting treatments. In many cases, accounting advice is eventually commissioned which, had it been available at the outset, could have saved both cost and time.

Brydon recommended a signed attestation by the Chief Executive and Chief Finance Officer that an evaluation of the effectiveness of internal controls over financial reporting had been completed and whether or not they were effective. We think consideration should be given to how such an approach might work for local authorities, to bring the importance of the preparation of high-quality accounts into sharper focus.

Proper completion of the CIPFA disclosure checklist by the finance team and thorough proof-reading and internal challenge of the draft accounts, by an individual familiar with the authority, but not directly involved in the detail of the accounts preparation process, can both make a significant difference to the quality of draft accounts and working papers submitted for audit.

Unfortunately, the quality of too many financial statements and working papers are not adequate. Some councils have multiple sets of accounts open. Others are having to rely on interim staff for accounts preparation which reduces corporate memory and impacts on succession planning. Improvement in accounts preparation, and recruitment and investment in finance teams is essential if local government is to prepare consistently high-quality draft accounts and respond to the challenges presented by an enhanced audit regime.

Responding to the audit process

Redmond's review noted some auditor concerns about local authority officers not being available to answer audit questions. He reiterated this point at the PAC inquiry.

In its evidence to the PAC inquiry, the Department noted there were some examples of very good practice in local authorities, with appropriate expertise, governance and oversight, whilst acknowledging that in some local authorities there is a lack of capacity and skills to act as a strong enough client in all situations, an issue further compounded by the pandemic.

Developments in the local authority sector and in technology have led to a significant increase in the complexity of financial systems used in the processing, recording, and reporting of transactions which feed into financial statements. The use of more complex systems increases the level of technical expertise required in their set-up and administration. In turn, it is more difficult for management to understand how their financial systems work and to exercise proper oversight over them.

Delays are often experienced in obtaining complete and accurate financial data reports from systems that reconcile to account balances and disclosures. This is generally due to reports not being designed to extract all relevant information to compile the financial statements, resulting in significant manual intervention to arrive at the values disclosed in the financial statements. Additional audit work is required to understand data sources and test manual adjustments for appropriateness, as well as undertaking planned audit procedures. Populations obtained for sampling can often consist of a large volume of transactions, including debits and credits rolled forward for a number of years. This leads to a high absolute value of transactions and increases the chance of selecting an item that does not represent a true year-end balance. Significant time can be spent in cleansing populations or selecting further items to obtain sufficient assurance.

Evidence received during audits also varies in quality. With thorough and well-explained evidence, testing can be completed quickly and efficiently, however where it is weak and lacking in detail the testing process takes much longer. For example, a good piece of evidence to support an accrual would be a working paper signposting the sampled figure with a comment on how it had been calculated and, if applicable, the subsequent invoice demonstrating its accuracy; in comparison, a poor piece of evidence would simply be a journal with no further comments. In the latter example it will take the auditor more time to understand the evidence provided and subsequently raise queries requesting further evidence which can result in a drawn-out and iterative testing process.

With increased audit focus on property valuations and pension liabilities, authorities should expect and be prepared to respond to audit queries and challenge on underlying assumptions, data inputs, the bases of valuation, clarity of instructions to management experts and compliance with CIPFA Code requirements. Rising audit quality expectations have increased auditor scrutiny and challenge of audited bodies. Similarly, auditors are now more likely to review the work of management experts, such as valuers, in much greater detail. The quality of some of underlying information made available as audit evidence by audited bodies is not sufficiently robust and this can lead to significant delays in concluding audits.

A well-documented accounts closedown process, which captures key data sources, internal and external contacts and their responsibilities and a well-organised approach to working paper preparation, review, version control and filing all help to smooth the audit process and add resilience should there be a change of finance personnel.

Clear and disciplined focus on the part of both preparers and auditors on what can be done early is also paramount. It is good practice for this to begin with an open and honest debrief at the end of each audit cycle, with a view to continuous improvement. Early work can and should take place to prepare and review accounting policies. Removing immaterial or redundant disclosures from accounts templates brought forward and entering early dialogue on areas of complexity and significant judgement can pay dividends.

In our experience, the audit process works efficiently and effectively where there is regular communication and collaborative working between the auditor and audited body.

Capacity

Local audit is a highly specialised field. To issue a safe opinion on a local government audit, thus playing an effective part in the safeguarding and reporting of public funds, auditors need a depth of knowledge and sector experience to apply judgement where the commercial focus of IFRS is not directly relevant and to understand the implications of the various specific legislative and regulatory provisions that have a bearing on the financial statements.

Local auditors also have a broader remit than their commercial counterparts, with responsibility for assessing local bodies' arrangements to secure VfM, and quasi-judicial roles on public objections to accounts and public interest reporting.

This change to the CoAP expanding the scope of the VfM arrangements work, coupled with evolving auditing standards and the increasingly demanding expectations of regulators, combined to cause a significant shift in the requirements on auditors, far beyond what could reasonably have been foreseen in PSAA's 2017 contract round. The timing of this change unfortunately coincided with the pandemic.

Local authorities have also experienced pressures in maintaining staff capacity and capability within their finance functions. The limited availability of staff with the relevant qualifications, skills and experience to deal with the complexity of work, compile working papers and financial statements of a high standard within the time available has made preparation of accounts increasingly challenging. We don't see enough attention being paid to the importance of succession planning and, in a sector with an ageing demographic, there is a growing need to recruit and train the public sector finance professionals of the future.

This increases audit risk and means it is even more important the auditor understands the accounting implications of transactions in the context of the financial and legal framework the bodies operate in and has the support of colleagues with sector experience.

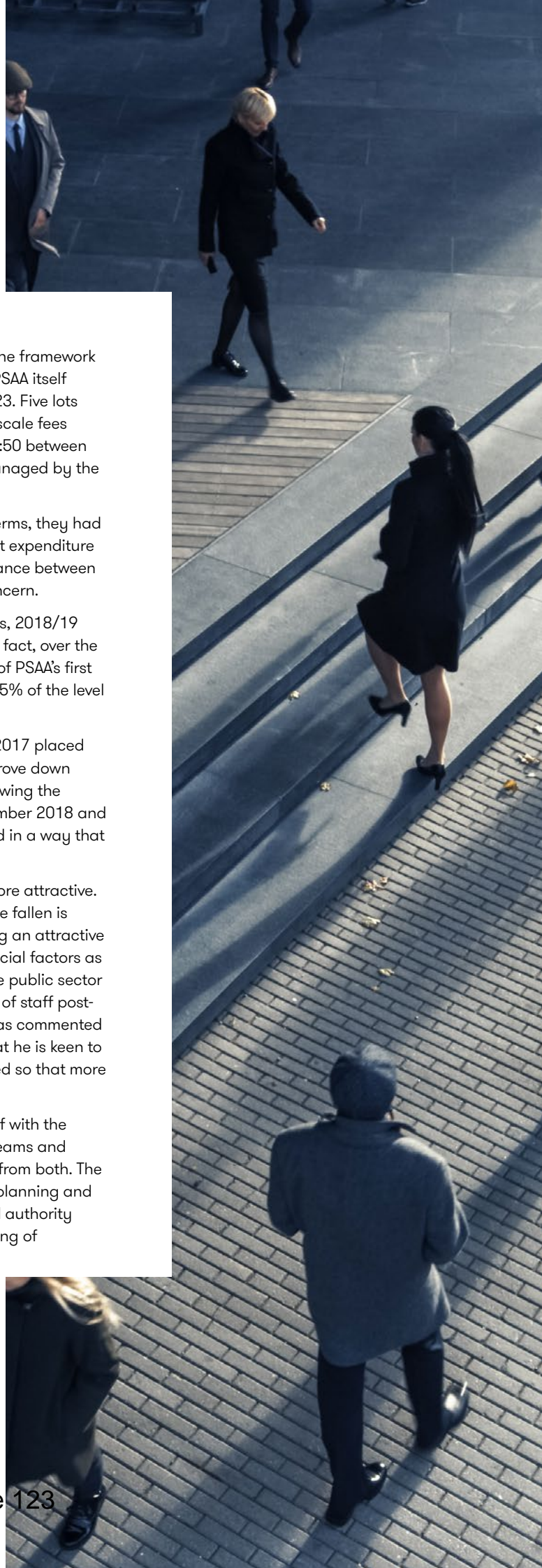
The ability of auditors to work with political bodies and challenging politicians is a vital skill which is learned over an extensive period. Coming into the sector, having never audited a local authority before, is demanding and requires extensive support and training, whatever the wider experience of the auditor.

Significant numbers of experienced audit staff have left the audit profession entirely in recent years, moving into non-audit roles within firms providing audit services and into the public and wider private sector. A combination of long working hours, the compression of deadlines, pay constraint and also a vastly increased focus on auditing the valuations of operational property, which have no impact on General Fund balances, has proven unattractive for new and experienced auditors alike. High staff turnover presents difficulties in terms of the continuity of audit teams and the demand placed on experienced colleagues in recruiting, orienting and training new employees and consequently there has been an impact on the timeliness of some audits.

It is hardly surprising, but nevertheless of real concern, that Redmond noted many local authorities had a negative opinion of the overall knowledge and expertise of their audit teams. He highlighted the difficulty in attracting and retaining quality junior staff and the challenge of retaining more experienced staff.

He also noted some evidence that reduction in audit fees had led to a decline in the number of auditors with the appropriate skills, knowledge and expertise. He commented that a fundamental review of the fee structure was necessary as, following successive Audit Commission and PSAA procurement exercises, no assessment of the amount it would cost to audit each local authority, based on their level of audit risk, had been made in the previous ten years whilst, over the same period, there had been changes to the powers and duties of local authorities and to the environment in which they operate.

Kingman noted a serious concern that arrangements for central procurement of local auditors were, in practice, prioritising a reduction in the cost of audits at the expense of audit quality.



From 2014 onwards, PSAA took on the responsibility of managing the framework contracts let by the Audit Commission in 2012 and 2014. In 2017 PSAA itself let new contracts, covering financial years from 2018/19 to 2022/23. Five lots comprising between 5% and 40% of the total market were let with scale fees reducing by 23%, following an assessment which was weighted 50:50 between price and quality. By way of comparison, the final procurement managed by the AC used a price-quality ratio of 60:40.

Redmond observed that not only had audit fees declined in cash terms, they had also dropped by approximately 20% when compared to net current expenditure of local authorities. In his evidence to PAC, Redmond noted the balance between price and quality in the procurement process was a big area of concern.

Taking inflation into account, the position is starker still. In real terms, 2018/19 audit fees stood at 43% of their level in 2011/12. This is despite the fact, over the same period, fees had increased in other sectors. Towards the end of PSAA's first contracting period, in late 2022, in real terms audit fees were just 35% of the level they had been a decade earlier.

In our view, each of the procurement exercises between 2011 and 2017 placed too much weighting on price at the expense of audit quality. This drove down prices at the same time that accounts became more complex. Following the collapse of Carillion in January 2018, the Kingman review of December 2018 and the Brydon review of December 2019, the audit landscape changed in a way that could not have been foreseen in letting the 2017 contracts.

Brydon commented that 'the profession of auditor must become more attractive. Breaking the negative spiral into which the profession seems to have fallen is necessary. The profession itself is primarily responsible for providing an attractive environment for potential new auditors, and must address such crucial factors as work pressure, work-life balance and culture'. We also need to make public sector audit a more attractive career choice, to retain a higher proportion of staff post-qualification. This has also been recognised by the new DLA who has commented that the local audit system has a very bad press at present and that he is keen to see the importance of the role in safeguarding public funds elevated so that more people want a career in local audit.

In its March 2021 report, the NAO noted there were insufficient staff with the relevant qualifications, skills and experience in both local finance teams and firms serving the local audit sector and a net loss of qualified staff from both. The NAO also observed that delays in completion of audits affects the planning and progress of auditors' annual work programmes, with delays in local authority audits affecting the delivery of NHS audits and delaying the planning of subsequent local authority audits.

The ICAEW told the PAC that the difficulty in finding sufficient qualified and experienced individuals to deliver local authority audits could in part be due to low margins on the audits, limiting the ability to offer higher pay, and in part due to less attractive career paths. Pressure on audit staff to work intensely over a short period of time exacerbated staffing issues. In our own evidence to the PAC inquiry, we recognised the need for more audit suppliers in the market.

DLUHC proposes to work with the new system leader and the audit firms to develop an industry-led workforce strategy to consider the future supply of local auditors. We are keen to work with the new DLA and the FRC on the development of a workforce strategy.

As a firm, we have increased the number of staff working on our local audits since early 2021 by engaging with partner Grant Thornton International firms in India and the Philippines. This initiative has seen over 70 new colleagues support the delivery of our audits; it is improving our resilience and sustainability and offers a promising pipeline for the future.

The PAC, in its July 2021 report, recommended that MHCLG should ensure PSAA's next procurement exercise supported a new fee regime for local government audit, appropriately funded with fees in line with costs of the work.

In its response to the PAC report, the government recognised the need for a more competitive market, new entrants and a stronger pipeline. MHCLG also provided an additional £15m to local bodies to help with the costs of audit and new initiatives and committed to provide greater flexibility to PSAA to agree additional audit costs.

One measure proposed is for firms to enter the market while carrying out relatively small packages of audit work, recognising the investment required in entering a new market. It is pleasing to note that PSAA has had some success with this initiative, although in the short-term there is a real risk that firms will compete amongst themselves for a relatively small pool of experienced local auditors, with resultant recruitment, orientation processes and rotation of audit personnel draining capacity within the system overall.

In October 2022, PSAA announced the outcome of its procurement of audit services for the 470 local government, police and fire bodies that opted into its national scheme for the next appointing period spanning the audits from 2023/24 to 2027/28.

The procurement took place against the challenging backdrop of a troubled audit profession, a turbulent market and a local audit system that is facing unprecedented difficulties including large volumes of delayed audit opinions. PSAA note only nine audit suppliers are currently registered to undertake local audits in England, three of which opted not to take part in the procurement.

PSAA offered contracts to six suppliers following a competitive process, with the scale of the contracts varying widely depending upon the capacity each supplier is able to provide. PSAA will retain the services of three existing suppliers, Grant Thornton, Mazars and Ernst & Young, welcome former supplier KPMG back to the market, and will enter into contracts with two new suppliers, Bishop Fleming and Azets Audit Services.

This will help to support sustainability and competitiveness in the local audit market, although this is a slow burn process as the two new market entrants will serve just 7% of the market through to 2027/28.

PSAA also advised bodies to anticipate a major re-set of total fees for 2023/24, involving an increase in the order of 150% on the total fees for 2022/23.

This level of increase, which goes a considerable way towards reversing a decade long series of fee reductions, should give audit firms the confidence to invest for the future. It will help to ensure audit quality as well as increasing capacity and making it easier to retain experienced and talented auditors within the market. Experienced auditors can also do more to promote the value of a career in public sector audit and the recent change to the CoAP, expanding the scope of VfM work, will assist with this.

Scale fee increases will also reduce the prevalence of audit fee variations arising simply from the time lag between increases in audit work due to changes in regulatory requirements and the setting of fee scales. Redmond noted that the audit firms considered the fee variation process to be unsatisfactory and we agree that administering large volumes of fee variations, for sector-wide reasons, is not the best use of auditors', authorities or PSAA's time.

Recovering to stable and sustainable publication of audited accounts will be a challenge for finance and audit teams alike, given capacity limitations and the need not just to deliver new audits, but also to clear the backlog of prior audits.

Governance

On a day-to-day basis, local government is generally a well-governed sector. There are of course exceptions and it is healthy to reflect on and, where appropriate, challenge the status quo.

CIPFA has been clear that audit committees are a key component of governance, noting their purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. They play an important role in supporting leadership teams, elected representatives, police and crime commissioners and chief constables.

Leadership, behaviour, culture and appropriate financial management are all important, so having the right members on an audit committee, with an appropriate remit and appropriate training for those involved is key.

CIPFA has prepared separate guidance resources for audit committee members in authorities, members of police audit committees, and a supplement for those responsible for guiding the committee. Most recently refreshed in October 2022, this incorporates legislative changes and new expectations following the Redmond Review and guidance includes suggested terms of reference, a knowledge and skills framework and tools to help improve effectiveness.

Redmond reported there was merit in authorities examining the composition of audit committees in order to ensure that the required knowledge and expertise are always present when considering reports. He noted 56% of audit committees in councils had no independent members and recommended consideration be given to the appointment of at least one independent and suitably qualified member.

In his evidence to the PAC inquiry, Redmond commented on the capacity of audit committee chairs and members to absorb and understand the complex nature of many reports appearing before them. He urged for the forging of closer links with the s151 Officer, Chief Executive and Monitoring Officer to ensure the membership of the committee feels confident enough to challenge and manage issues presented to them.

Redmond noted partnership governance as an area receiving minimal or no specific coverage by Audit Committees and we have also commented on this in PIRs we have issued.

We agree with Redmond's recommendations in relation to governance and where applicable we encourage audit committees to thoroughly understand the reasons for delays in publication of audited accounts. Whilst recognising that delays can and do occur, audit committees should hold management and auditors to account for preparing and monitoring delivery plans.

Appendix - Management and audit committee checklists

Based on our experience as local authority auditors, best practice would be for management and audit committees to consider and address the points below. We recommend DLUHC, CIPFA or the FRC set out expectations for the system as a whole.

Management

- Has a timetable been agreed with the auditor, including dates for draft accounts, working papers, and availability of key members of staff?
- Is the s151 Officer satisfied that arrangements are in place for robust completion of CIPFA's Disclosure Checklist and that appropriate time has been allowed for robust internal quality assurance before audit?
- Is the finance team clear on the information needs of users of the accounts, on their view of accounts preparation materiality and has the clarity of presentation of the accounts been reviewed?
- Does the finance team have sufficient capacity to prepare high-quality draft accounts on time? Should support or expertise be sought from outside the organisation?
- Has the need for significant accounting judgements and estimates been thoroughly assessed, especially in light of any organisational changes or significant new transactions? Have assumptions underlying judgements and estimates been properly documented and has the finance team assured themselves over the accuracy and completeness of data inputs to estimation processes?
- How has management assured itself over the competency of external valuation, accounting, actuarial or other expertise? Has management fully and appropriately briefed their experts?
- Has the finance team held a debrief meeting with the external audit team on the previous audit? What changes are needed for the following cycle?
- Is the finance team clear on the core working papers the audit team will require?
- Have the audit and finance teams discussed what work can be done early, outside the peak of post-statements audit fieldwork?

Audit Committee

- Does the Audit Committee consider it has the appropriate membership, training and access to professional support to effectively discharge its responsibilities?
- Is the Audit Committee assured on the effectiveness of internal control over the preparation of draft accounts?
- Has management clearly identified the significant judgements underpinning the financial statements? Does the Committee agree with them?
- Has management clearly identified the need for significant estimates in the accounts? How have the estimates been formed? What alternatives have been considered and have experts been involved where appropriate?
- Has the authority entered into any significant and complex new transactions in the year? If so, what has management done to assure the Committee these will be accounted for appropriately?
- Does the Committee understand the causes of any significant delays to the audit process? Is there a timetable, with clear accountabilities, in place for resolving delays?

Appendix - Timeline

Date	Event
October 2009	Approval of 2010/11 Code of Practice on Local Authority Accounting, the first based on International Financial Reporting Standards.
August 2010	Government announces intended abolition of the Audit Commission.
November 2012	Local auditors TUPE'd to audit firms following award of five-year audit contracts by the Audit Commission, covering financial years 2012/13 to 2016/17. Local audit fees for 2012/13 on average 40% lower than for 2011/12.
January 2014	Local Audit and Accountability Act enacted.
April 2015	All contracts awarded by the Audit Commission transferred to PSAA.
April 2015	The Accounts and Audit Regulations 2015 come into force. Target date for publication of audited local government accounts accelerated to 31 July, from 30 September, effective from 2017/18 financial year.
October 2015	Secretary of State extends transitional arrangements to cover local audits for 2017/18.
July 2016	PSAA specified as appointing person under LAAA 2014.
December 2017	PSAA award five-year audit contracts covering financial years from 2018/19 to 2022/23. Local audit fees for 2018/19 on average 23% lower than for 2017/18.
January 2018	Carillion PLC enters compulsory liquidation, largest ever trading liquidation in the UK.
February 2018	Northamptonshire County Council CFO issues s114 notice.
December 2018	Sir John Kingman publishes his <i>Independent Review of the Financial Reporting Council</i> .
June 2019	CIPFA publishes <i>Streamlining the accounts</i> .
December 2019	Sir Donald Brydon publishes his <i>Independent Review into the quality and effectiveness of audit</i> .
February 2020	PSAA publishes Touchstone Renard's report <i>Future Procurement and Market Supply Options Review</i> .
March 2020	UK enters its first Covid-19 lockdown.
April 2020	NAO Code of Audit Practice 2020 comes into force, introducing important changes to scope of local value for money audit.
September 2020	Sir Tony Redmond publishes his <i>Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting</i> .
October 2020	Financial Reporting Council publishes its first public report <i>Audit Quality Inspections of Major Local Audits covering 2018/19 audits</i> .
December 2020	DLUHC publishes initial response to Redmond Review.
February 2021	PSAA Audit Quality Monitoring Report 2020 notes 42% of 2018/19 local government opinions delayed beyond 31 July 2019 publishing date.
March 2021	NAO releases report <i>Timeliness of local auditor reporting on local government in England</i> .
July 2021	First meeting of the Local Audit Liaison Committee.
September 2021	PSAA launches local audit procurement strategy.

Date	Event
October 2021	FRC publishes second public report Audit Quality Inspections of Major Local Audits covering 2019/20 audits.
December 2021	DLUHC announces measures to improve local audit delays.
January 2022	FRC announces Regulatory Penalty of £250,000 against Mazars following an inspection of a local audit.
February 2022	Concerns emerge relating to the accounting for infrastructure assets in the local government sector.
February 2022	PSAA local audit contract notice for financial years 2023/24 to 2027/28.
March 2022	PSAA Audit Quality Monitoring Report 2021 notes only 45% of 2019/20 local government opinions published by 30 November 2020.
April 2022	CIPFA announces decision to defer implementation of IFRS 16 until April 2024, following an emergency consultation.
July 2022	Accounts and Audit (Amendment) Regulations SI 2022 /708 come into force, target for publication of 2022/23 to 2027/28 audited accounts set as 30 September.
October 2022	PSAA announces appointment of contracts for local audits to 2027/28, indicating an 'unavoidable major re-set of fees' of around 150% of 2022/23 fees
October 2022	FRC publishes third public report Audit Quality Inspections of Major Local Audits covering 2019/20 and 2020/21 audits.
October 2022	FRC announces commencement of tenure of first Director of Local Audit.
October 2022	CIPFA refreshes its guidance for Audit Committees.
November 2022	CIPFA publishes an Update to the Code for Infrastructure Assets and DLUHC lays Capital Accounting and Finance Amendment Regulations before Parliament.
December 2022	Thurrock Council issues s114 notice.
March 2023	Memorandum of Understanding between the FRC and DLUHC published.

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Glossary

AAR	Accounts and Audit Regulations 2015 (as amended)
AC	Audit Commission
Act	Local Audit and Accountability Act 2014
AQR	Audit Quality Reviews as conducted by the FRC
ARGA	Audit, Reporting and Governance Authority
CIPFA	Chartered Institute of Public Finance and Accountancy
CoAP	NAO Code of Audit Practice
Code	CIPFA Code of Practice on Local Authority Accounting in the UK
DLA	FRC Director of Local Audit
DLUHC	Department for Levelling Up, Housing and Communities
FRC	Financial Reporting Council
GF	General Fund
HRA	Housing Revenue Account
ICAEW	Institute of Chartered Accountants in England and Wales
LALC	Local Audit Liaison Committee
LGPS	Local Government Pension Scheme
MHCLG	Ministry of Housing, Communities and Local Government
NAO	National Audit Office
OLAR	Office of Local Audit and Regulation (body proposed by Sir Tony Redmond)
PAC	Public Accounts Committee
PIR	Public Interest Report
PSAA	Public Sector Audit Appointments Ltd
s114	Section 114* of Local Government and Finance Act 1998
s151	Section 151** of Local Government Act 1972
TR	Touchstone Renard
VfM	Value for Money

*S114 Local Government Finance Act 1988 114 Functions of responsible officer as regards reports.

2 Subject to subsection (2A), the chief finance officer of a relevant authority shall make a report under this section if it appears to him that the authority, a committee of the authority, a person holding any office or employment under the authority, a member of the relevant police force, or a joint committee on which the authority is represented—

3(a) has made or is about to make a decision which involves or would involve the authority incurring expenditure which is unlawful,

4(b) has taken or is about to take a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency on the part of the authority, or

5(c) is about to enter an item of account the entry of which is unlawful.

**S151 of Local Government Act 1972

every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs

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